22 August 2008

PRELIMINARY FINAL REPORT (APPENDIX 4E) (AUDITED)
FINANCIAL YEAR ENDED 30 JUNE 2008

No. of Pages: 90

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 2008.

Key Financials

The current year results reflect the change in principal activities of the Group, as described in more detail below, which has transformed from being a biotechnology seed investor and incubator into a drug developer for treatments of cancer as well as for other high unmet medical need disease indications.

A summary of the results is as follow:

- The consolidated net loss of the Group for the year was $2,286,119 after an income tax expense of $1,169,250 (2007: profit of $6,295,707 after an income tax expense of $5,722,746).
- The net tangible asset backing per share as at 30 June 2008 was $1.28 (2007: $1.52) whereas Circadian's share price was $0.88 (2007: $1.28).
- Consolidated cash reserves as at 30 June 2008 amounted to $46,216,626 (2007: $48,193,383).
- The combined market value of the Group's direct shareholdings in listed investments as at 30 June 2008 was $11,185,749 (2007: $19,714,398). Including its indirect interests, the market value of the listed holdings was $12,753,858 (2007: $20,521,512). During the year, the Group disposed of shares in Metabolic Pharmaceuticals Limited and Avexa Limited providing it with total sales proceeds of $5,472,191 with a total realised gain of $4,508,091 (further details are provided below).
- Basic earnings per share: loss of 2.86 cents (2007: earnings per share of 27.92 cents). Earnings last year reflect the Group's disposal of its 19% interest in Zenyth Therapeutics (a gain of $12.6 million) and the disposal of a substantial portion of its holding in Avexa (a gain of $6.8 million) offset by non-recurring license fees and intellectual property costs ($7.9 million) relating to the Group's significant VEGF technology.
- All research and development costs of $3,419,266 (2007: $3,155,206) and patent costs of $1,838,058 (2007: $2,011,963) have been expensed during the year.

The Group has completely divested of its holding in Metabolic Pharmaceuticals Limited and the gain of $2,789,481 on the disposal of 6,580,000 ordinary shares in Avexa includes the recovery of impairment losses recognised prior to 1 July 2005 of $1,925,778.

The results also reflect the Group's share (under the equity accounting standards) of the losses recognised by Antisense Therapeutics Limited (ATL) of $418,294. These losses have decreased substantially since last year (from $988,570) due to licensing income earned by ATL through its licensing agreement with large global pharmaceutical company Teva Pharmaceuticals for its multiple sclerosis drug ATL1102 which recently achieved successful Phase IIa trial results.

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Operational Highlights

Circadian – A developer of therapeutics for cancer & other serious diseases

Since the end of last year Circadian has undergone a significant and positive transition in its business.

Circadian has moved from being a biotechnology investor and incubator to a developer of therapeutics for cancer and other serious diseases pursuant to the strategy announced in June 2008. This is based on the outstanding progress achieved with the development of the intellectual property of its subsidiary company Vegenics Limited (relating to Vascular Endothelial Growth Factors (VEGF) C, D and R-3).

The key aspects with respect to Circadian's drug development business are:

- Continuing to build on what is **the most comprehensive intellectual property portfolio relating to VEGF-C, VEGF-D and VEGFR-3 molecules of any company in the world**, that has been accumulated in our 100% owned subsidiary Vegenics. This IP is the basis of the Group's ongoing drug development programs, the initial and primary focus being on cancer therapies. Genentech Inc's multi-billion dollar anti-cancer drug Avastin® is an antibody therapy against the closely related VEGF-A. An expanding body of scientific literature suggests that targeted VEGF-C and VEGF-D alone or in combination with Avastin® may provide more effective anti-cancer treatments through starvation of tumour blood vessel growth (angiogenesis therapies).
- **Ownership of 100% of Vegenics** (previously 67% owned by Circadian). On 14 August 2008 Circadian acquired an additional 33% interest in Vegenics from its cofounders of that company, the Ludwig Institute for Cancer Research Ltd (LICR) and Licentia Limited which provides the company with complete ownership of Vegenics' product pipeline and its extensive intellectual property portfolio. Under this transaction LICR and Licentia have become substantial shareholders of Circadian.
- **Utilising Circadian's strong financial resources**. At the date of this report Circadian has approximately **$58 million in cash and listed investments** ($45 million and $13 million respectively, equating to approximately $1.28 per share).
  This strong cash position and our listed investments, which are effectively a source of future cash, enable Circadian to drive its drug development program and will provide strength in negotiating future licensing or partnering arrangements.
- **Ongoing product development by licensed partners who are leaders in their fields.**
  UK company Ark Therapeutics (LSE: AKT) is developing Trinam® which is expected to enter Phase III studies in the second half of 2008. Trinam® is a treatment for vascular grafts associated with renal dialysis using our VEGF-D gene. US listed company ImClone Systems Inc (NASD: IMCL) is developing an antibody to VEGFR-3 for the treatment of solid tumours. Ark is one of the world's most advanced gene therapy companies and ImClone (market capitalisation: US$5.5 billion) is one of the world's leaders in the development of therapeutic antibodies as cancer therapies having developed the drug Erbitux®.
  The Group earns minimum annual royalties and annual license fees respectively from these companies and will receive payments on achievement of product development milestones as well as royalties on sales.
- **The development of its own product pipeline.** The Group's most advanced drug candidate, VGX-100 for the treatment of cancer is commencing pre-clinical studies with manufacturing being undertaken by Swedish company BioInvent AB. VGX-100 is an antibody to VEGF-C. Also under development are the VGX-200 series of humanized VEGF-D antibodies as anti-cancer agents, and VGX-300 (a soluble VEGFR-3 protein) for selected cancer applications.

- **Expanding its management team.** Circadian has bolstered its capabilities in drug research and development (with specific experience in angiogenesis and therapeutic antibodies), in business development and in IP management through the recruitment of a highly experienced and credentialed management team.
- **Establishing a world class and internationally experienced Product Development Review Group.** The members of this Group bring vast experience in international drug development including toxicology, clinical development, oncology and therapeutic antibodies.

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

Natalie Korchev
CFO & 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 2008**
Previous corresponding period:	FINANCIAL YEAR ENDED 30 JUNE 2007

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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 2008 are as follows:

Revenues and Results from Ordinary Activities:		**Change compared to 2007 %**		**2008 $**
Revenues from ordinary activities	Down	72.7	to	8,147,757
Loss from ordinary activities after tax attributable to members				(1,147,805)
Loss for the year attributable to members				(1,147,805)

Note: The percentage changes for the profit (loss) comparative have not been provided as the Group has moved from a profit in the 2007 financial year to a loss in the 2008 financial year.

An explanation of the figures reported above are contained in the 'Commentary on Results' section of this report.

Net profit/(loss) for the year:

For details relating to the current year'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.

COMMENTARY ON RESULTS

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

Key Financials

The current year results reflect the change in principal activities of the Group, as described earlier, which has transformed from being a biotechnology seed investor and incubator into a drug developer for treatments of cancer as well as for other high unmet medical need disease indications.

A summary of the results is as follow:

- The consolidated net loss of the Group for the year was $2,286,119 after an income tax expense of $1,169,250 (2007: profit of $6,295,707 after an income tax expense of $5,722,746).
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- Basic earnings per share: loss of 2.86 cents (2007: earnings of 27.92 cents).
  Earnings last year reflect the Group's disposal of its 19% interest in Zenyth Therapeutics (a gain of $12.6 million) and the disposal of a substantial portion of its holding in Avexa (a gain of $6.8 million) offset by non-recurring license fees and intellectual property costs ($7.9 million) relating to the Group's significant VEGF technology.
- All research and development costs of $3,419,266 (2007: $3,155,206) and patent costs of $1,838,058 (2007: $2,011,963) have been expensed during the year.

Commensurate with its strategy, the Group has increased its drug development activities and spend on VEGF targeted therapies which has been offset by the decrease in spend in non-core R&D activities. Patent costs have come down since the prior year due to the consolidation and rationalisation of the Group's significant VEGF intellectual property portfolio which it acquired in the prior year.

The Group has completely divested of its holding in Metabolic Pharmaceuticals Limited and the gain of $2,789,481 on the disposal of 6,580,000 ordinary shares in Avexa includes the recovery of impairment losses recognised prior to 1 July 2005 of $1,925,778.

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

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2008

The Directors (Board) of Circadian Technologies Limited (Circadian or Company) have pleasure in submitting their report for the year ended 30 June 2008.

DIRECTORS

The names of the Company's Directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Robert Klupacs	Managing Director (appointed 1 March 2008)
Dominique Fisher	Non-Executive Chairman
John Stocker	Non-Executive Director
Donald Clarke	Non-Executive Director
Tina McMeckan	Non-Executive Director (appointed 19 January 2008)
Carlo Montagner	Non-Executive Director (appointed 1 July 2008)
Jonathan Skipper	Non-Executive Director (appointed 14 August 2008)
Leon Serry	Managing Director (retired 29 February 2008)
Graeme Kaufman	Executive Director (resigned 25 October 2007)
James MacKenzie	Non-Executive Director (resigned 31 July 2008)

The qualifications, experience and special responsibilities of the Company's Directors are as follows:

Robert Klupacs, BSc(Hons), Grad Dip IP Law, MAIPA

Robert Klupacs joined Circadian Technologies Limited as an executive in August 2005 and was appointed as Managing Director of the Company on 1 March 2008. He is also Managing Director of Vegenics Limited (a Circadian subsidiary). Mr Klupacs is a registered Australian patent attorney and has been involved in the biotechnology industry for over 20 years. He has significant expertise in technology commercialisation and corporate structuring and has negotiated and closed a number of major licensing transactions with international pharmaceutical and biotechnology companies throughout his career. Prior to his position at Circadian, Mr Klupacs was CEO of ES Cell International Pte Ltd (ESI), a pioneering company in the development of human embryonic stem cell technologies based in Singapore. Prior to his role at ESI, he spent two and a half years running the Monash Institute of Reproduction and Development (MIRD) in Melbourne as its Chief Operating Officer, where he founded six start-up companies, and before that was employed for over 11 years by Zenyth Therapeutics Limited (formerly Amrad Corporation Ltd) with the last four years in that company as a member of the executive team and Director of Intellectual Property.

Dominique Fisher, BA (Hons), MAICD

Dominique Fisher was appointed a Non-Executive Director of Circadian in September 2005. She became Chairman of the Board in the subsequent month and is a member of the Company's Audit Committee. She has extensive business experience in the corporate area including the commercialisation of new technologies. Ms Fisher is Principal and Executive Director of EC Strategies Pty Ltd, which advises local and offshore companies on technology strategies and major commercial transactions. She is Chairman of Sky Technologies Pty Ltd, Managing Director of WebAlive Pty Ltd and Director of a major development company, Leakes Rd Rockbank Pty Ltd, a Mirvac joint venture. Ms Fisher is also a Councillor of the Australia Council of the Arts, is Chairman of its Dance Board and is a member of the Prostate Cancer Foundation. Her past appointments have included Insurance Australia Group Limited (IAG), NRMA, the Malthouse Theatre, and member of the ICT Advisory Board, advising the Federal Government on key issues affecting the development of the information technology and communications sector. In March 2007, Ms Fisher was appointed a Non-Executive Director of Pacific Brands Limited.

John Stocker, AO, MB, BS, BMedSc, PhD, FTS, FRACP
Dr John Stocker was appointed as a Non-Executive Director of Circadian in May 1996 and is the Chairman of the Company's Science Committee and a member of the Remuneration Committee. He was formerly the Commonwealth Government Chief Scientist and was Chief Executive of CSIRO from 1990 to 1995. On 3 July 2007, Dr Stocker was appointed as Chairman to the Board of CSIRO. He is also a Principal of Foursight Associates Pty Ltd and holds or held directorships in the following listed companies during the past three years:

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

Donald Clarke, LLB (Hons)
Don Clarke was appointed a Non-Executive Director of Circadian in September 2005 and is Chairman of the Remuneration Committee. He has been a partner with the law firm Minter Ellison since 1988, having joined that firm in 1980. His principal areas of practice include capital raisings, corporate restructures, business acquisitions and funding for business expansions and new ventures. Mr Clarke has broad commercial practice, involving predominantly ASX listed companies. He is also a Non-Executive Director of the ASX listed companies, Metabolic Pharmaceuticals Limited (appointed April 2007) and Webjet Limited (appointed January 2008). Mr Clarke is also a director of other unlisted public and private companies.

Tina McMeckan, BLibArts&Sc, MBA, FAICD
Tina McMeckan was appointed a Non-Executive Director of Circadian in January 2008 and is Chairman of the Audit Committee. Her specific skills are in the commercialisation of science and technology and the energy sector. Ms McMeckan is presently Chairman of the Centre for Eye Research Australia, a Director of Nanotechnology Victoria Ltd and the Vision Cooperative Research Centre, and is also a Member of the National Board of Deacons law firm. She is a past Member of the Funds Management Committee of the AusIndustry Research and Development Board and has held senior investment management positions with the Australian Industry Development Corporation and Amrad Corporation Ltd (acquired by CSL Limited) focusing on capital raisings for innovation-based ventures. She also has extensive board expertise in public and private utility infrastructure including power production, networks and retailing business in the gas and electricity industries. Her other appointments as a Director have included United Energy, Snowy Hydro Trading, the Westar and Kinetik Energy Group, Victorian Power Exchange, Solaris Power and the formerly listed company Alinta Limited (October 2003 to August 2007).

Carlo Montagner
Carlo Montagner was appointed a Non-Executive Director of Circadian on 1 July 2008 and is a member of Circadian's Product Development Review Group. He has a wealth of experience in heading global oncology businesses for chemotherapeutic products and has more than 15 years experience in the pharmaceutical industry in the U.S., Europe, Japan and in Australia. During his career, Mr Montagner has built specialty oncology practices, managing the strategic integration of both clinical and commercial aspects of drug portfolios. He was Executive Vice President & Global Head of Schering AG/Berlex Labs USA Oncology Business Unit. He has also held various positions at Aventis Pharma including Head of Oncology & Cardiovascular Business Unit at Sanofi-Aventis Japan and Global Senior Director of Marketing and Medical Affairs, managing the Taxanes chemotherapy portfolio. Mr Montagner is President Oncology Pan Asia for Nasdaq listed Abraxis Bioscience Inc, CEO of privately held Specialised Therapeutics Australia and is a member of the Australian Institute of Company Directors. He also holds a Non-Executive Director position of ASX listed company Alchemia Limited whose board he joined in March 2008.

Jonathan Skipper, PhD
Dr Jonathan Skipper was appointed a Non-Executive Director of Circadian on 14 August 2008. He is also a Non-Executive Director of Vegenics Limited (a Circadian subsidiary). He is Executive Director of the Ludwig Institute for Cancer Research Ltd (Executive Director for Intellectual Property and Licensing) and has 12 years experience with the Ludwig Institute for Cancer Research (LICR) in intellectual property management and technology licensing. He has scientific expertise in cancer biology and has completed a number of licensing contracts with large pharmaceutical companies. Dr Skipper is also the director of LICR's Office for Intellectual Property. Whilst at LICR, he has held various positions including Associate Director for Intellectual Property and Licensing, Director of the Office for Program Development and Manager, Office for Intellectual Property. Prior to joining LICR, Dr Skipper obtained his PhD in Immunology from the University College, London and conducted further research at the University of Virginia and the University of Oxford.

Leon Serry, FCIS, CPA
Leon Serry, who was the founding Managing Director of Circadian Technologies Limited, retired from the Company on 29 February 2008 after 24 years of service. He is a Fellow of the Chartered Institute of Secretaries (FCIS) and holds CPA status. Mr Serry was employed by Nicholas Proprietary Limited and was Company Secretary of the Leighton Family Group of Companies. He was Company Secretary of Paterson Reid & Bruce Limited during the 1970s, being appointed to that position through Ralli Brothers Bankers Limited of the UK. Mr Serry has been successful in a wide range of commercial activities. For the past three years, the only listed public directorship held by Mr Serry was that of Managing Director of Circadian Technologies Limited.

Graeme Kaufman, MBA, BSc
Graeme Kaufman resigned as an Executive Director of Circadian on 25 October 2007 after six years with the Company. Mr Kaufman has had over 30 years experience with CSL Limited. While at CSL he held various positions including General Manager, Biosciences Division (1994 to 1999), Finance Director (1987 to 1994) and Manufacturing Manager (1984 to 1987). Mr Kaufman was also Managing Director of Syngene Limited (42% owned by Circadian), CancerProbe Pty Ltd (60% owned by Circadian) and Director of Vegenics Limited (a Circadian subsidiary). For the past three years, the only listed public directorship held by Mr Kaufman was that of Executive Director of Circadian Technologies Limited.

James MacKenzie, BBus, FCA, FAICD
James MacKenzie resigned as a Non-Executive Director of Circadian on 31 July 2008 after six years with the Company. He was also Chairman of the Company's Audit Committee and a member of the Remuneration Committee. Mr MacKenzie has previously held the positions of Managing Director, Funds Management and Insurance at the ANZ Banking Group, Chief Executive Officer of Norwich Union Australia and the Transport Accident Commission. A Chartered Accountant by profession, Mr MacKenzie was also a Partner in the Melbourne and Hong Kong offices of an international accounting firm now part of Deloitte, and he remains involved with Deloitte as a consultant. He is currently Chairman of Mirvac Group and the Victorian Transport Accident Commission and is a Director of the Victorian WorkCover Authority. Mr MacKenzie also currently holds or held directorships in the following listed companies during the past three years:

Mirvac Group (Director since January 2005, Chairman since November 2005)
Pacific Brands Limited (Director since May 2008)
Strategic Pooled Development Ltd (Director since November 2005)
Bravura Solutions Ltd (Director since April 2006)
Zenyth Therapeutics Ltd (Director from April 2005 to November 2006)
MedAire Inc (Director from May 2004 to July 2005)

COMPANY SECRETARY

Natalie Korchev, BCom, ACA
Natalie Korchev, who is also the company's CFO, has been Company Secretary of Circadian Technologies Limited for eight years. Prior to holding this position she was a senior audit manager with an international accounting firm now part of Ernst & Young. She has been a Chartered Accountant for 17 years. Ms Korchev is also a Director and Company Secretary for Vegenics Limited (a Circadian subsidiary) and CancerProbe Pty Ltd (60% owned by Circadian). She is Company Secretary for Syngene Limited (42% owned by Circadian) and was Company Secretary of Antisense Therapeutics Limited from November 2000 up until June 2006.

DIRECTORS' INTERESTS
At the date of this report, the interests of each director of the Company in the contributed equity and share options of the Company are as follows:

	Number of shares held directly	Number of shares held indirectly	Number of options over ordinary shares
Dominique Fisher	-	67,500	-
Robert Klupacs	58,215	-	1,000,000
John Stocker	282,334	-	-
Don Clarke	-	80,000	-
Tina McMeckan	20,000	-	-
Carlo Montagner	-	-	-
Jonathan Skipper	-	-	-

SHARE OPTIONS & PERFORMANCE RIGHTS

Unissued Shares
As at the balance sheet date and the date of this report, details of Circadian Technologies Limited's unissued ordinary shares or interests under option are as follows:

Options:

Number of shares under option	550,000	1,400,000	120,000	500,000
Exercise prices	$2.62 - $3.12	$1.50	$1.50	$1.30
Vesting date	25/9/2003*	8/2/2011^	9/3/2011^	8/2/2011^
Expiry date	25/9/2008	8/2/2012	9/3/2012	8/2/2012

* These options were fully vested on 25/9/2006.

^ These dates are the first exercise date if the options vest. The vesting dates are the dates when share price hurdles are met for each of the three tranches of options granted which are $1.875, $2.25 and $2.625 for the options with a $1.50 exercise price and $1.625, $1.95 and $2.275 for the options with a $1.30 exercise price (see the Remuneration Report for further details). The Company's share price at 30 June 2008 was $0.88.

Refer to the section in this report headed Remuneration Report for details on the terms and conditions of the options granted under the Company's option plans.

No options were exercised during the financial year.

Performance rights:

As detailed in the section of this report headed Remuneration Report, an assessment was performed shortly after 30 June 2008 to determine whether the performance hurdles were met for the performance rights granted in 2005. This assessment was performed based on Circadian's Total Shareholder Return (TSR) relative to a comparator group of companies over the three-year performance period ending on 30 June 2008. The comparator group of companies was the 50 listed ASX listed ranked both above and below Circadian by market capitalisation, excluding listed property trusts, at the time of grant. Circadian's TSR fell short of the median of the comparator group for the three year period. As such the performance rights did not vest and lapsed as at 30 June 2008.

Refer to the section in this report headed Remuneration Report for details on the terms and conditions of the performance rights granted under the Performance Rights Plan.

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

PRINCIPAL ACTIVITIES OF THE CONSOLIDATED ENTITY
Circadian Technologies Limited's principal activity is to develop and commercialise therapies for cancer and other serious diseases. Circadian has moved from being a biotechnology investor and incubator to a developer of angiogenesis-based therapeutics for cancer and other serious diseases pursuant to the strategy it announced to the market during the year (also see the Operations Report). The extensive intellectual property portfolio covering key targets (Vascular Endothelial Growth Factors C and D) for the treatment of diseases associated with angiogenesis has been accumulated in Circadian's unlisted subsidiary Vegenics Limited. The therapeutic applications for the VEGF technology, which functions in regulating blood supply (angiogenesis), are substantial and broad.

OPERATING AND FINANCIAL REVIEW

Results

The current year results reflect the change in principal activities of the Group, as described earlier, which has transformed from being a biotechnology seed investor and incubator into a drug developer for treatments of cancer as well as for other high unmet medical need disease indications.

A summary of the results is as follows:

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Review of Operations

The Operations Report, which forms part of this Directors' Report, provides information regarding the consolidated entity's key corporate activities and the progress achieved during the 30 June 2008 financial year.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Refer to the Principal Activities section of this report.

SIGNIFICANT EVENTS AFTER BALANCE DATE

On 14 August 2008, Circadian announced that it had completed its acquisition of the Ludwig Institute for Cancer Research Ltd's (LICR) and Licentia Limited's (Licentia) combined 33 per cent interest in Vegenics. This increased Circadian's interest in Vegenics from 67% to 100%.

Consideration for the acquisition of LICR's and Licentia's combined interest in Vegenics is in two tranches:

- Tranche 1:
  - 5,117,430 Circadian shares were issued to LICR (2,589,635 shares) and Licentia (2,527,795 shares) on 14 August 2008. This equates to a combined interest of 11.3% after the share issue;
  - 50% of the shares will be escrowed for a period of 12 months from date of issue. The remaining 50% will be escrowed for 24 months; and
  - a cash payment of Euro 400,000 (A$680,272) was made to Licentia.

- Tranche 2:
  - A further 1,155,000 Circadian shares will be issued to LICR (532,455 shares) and Licentia (622,545 shares) on the earlier to occur of certain product development milestones or the second anniversary of the date of Circadian's acquisition of LICR's and Licentia's interests in Vegenics (i.e. 14 August 2010) (subject to shareholder approval, if required, under the ASX Limited Listing Rules).

LICR's and Licentia's nominee, Dr Jonathan Skipper (LICR's Executive Director for Intellectual Property and Licensing) has been appointed to the board of Circadian as part of this transaction.

CORPORATE OBJECTIVES AND LIKELY DEVELOPMENTS

The Group's drug development and commercialisation strategy is to develop therapeutic products to treat cancer and other diseases up to the demonstration of proof of efficacy in Phase II human trials, with subsequent clinical development being undertaken in partnership with larger pharmaceutical and/or biotechnology companies. These products are based on the intellectual property and know-how owned and controlled by Circadian's 100% owned subsidiary Vegenics Limited.

The Group will consider entering into earlier partnerships if appropriate and will also selectively exploit parts of its product and intellectual property portfolio through partnering deals at earlier stages of development in order to mitigate development risk and the use of the Group's significant cash and listed investment assets. There is potential for this to occur in the next one to two years based on the demonstrated willingness of large pharmaceutical and biotech companies in the last 12 to 18 months to sign-up early-stage deals, particularly in the field of angiogenesis and therapeutic antibodies.

The intellectual property accumulated in Vegenics has applications not just in cancer, which is the Group's primary and initial therapeutic development focus, but also in a number of other areas such as eye disease and inflammation. Accordingly there are a number of large market opportunities the Group could develop itself or in partnership with others.

The Group will continue to expand its intellectual property rights and product portfolio around the core area of cancer as well as in other disease areas.

The likely developments in the Group's operations, to the extent that such matters can be commented upon are covered in the Operations Report.

ENVIRONMENTAL REGULATIONS

The Group is not subject to significant environmental regulations.

INDEMNIFICATION AND INSURANCE

During the financial year ended 30 June 2008, the Company indemnified its directors, the company secretary and executive officers in respect of any acts or omissions giving rise to a liability to another person (other than the Company or a related party) unless the liability arose out of conduct involving a lack of good faith. In addition, the Company indemnified the directors, the company secretary and executive officers against any liability incurred by them in their capacity as directors, company secretary or executive officers in successfully defending civil or criminal proceedings in relation to the Company. No monetary restriction was placed on this indemnity.

The Company has insured its directors, the company secretary and executive officers for the financial year ended 30 June 2008. Under the Company's Directors' and Officers' Liabilities Insurance Policy, the Company shall not release to any third party or otherwise publish details of the nature of the liabilities insured by the policy or the amount of the premium. Accordingly, the Company relies on section 300(9) of the *Corporations*

Act 2001 to exempt it from the requirement to disclose the nature of the liability insured against and the premium amount of the relevant policy.

DIRECTORS' MEETINGS

The number of meetings of directors and meetings of committees of the board held during the year are set out below. Attendance by the directors of these meetings as relevant to each of them is as shown. It is the Company's practice to invite all directors to committee meetings irrespective of whether they are members, of which most attend.

	Directors' Meetings	Meetings of Committees Audit	Remuneration	Science
Number of meetings held:	**17**	**4**	**1**	**1**
Number of meetings attended:				
Dominique Fisher	17	4		
Robert Klupacs	6			
John Stocker	16 [17]		1	1
Don Clarke	15 [17]	4	1	
Tina McMeckan	7	2		
Leon Serry	11			1
Graeme Kaufman	5			1
James MacKenzie	7 [17]	3 [4]	1	

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

Note that James MacKenzie was on leave of absence for approximately 4 months during the financial year; and Carlo Montagner and Jonathan Skipper were appointed after financial year end, accordingly they did not attend any meetings during the financial year.

COMMITTEE MEMBERSHIP

During the year the Company had an Audit Committee, Remuneration Committee and Science Committee of the Board of Directors. In line with Circadian becoming a biologics drug development company pursuant to the strategy it announced in the latter part of the year, a Product Development Review group was established on 10 June 2008. This group comprises members with collectively extensive experience in drug development and in the international pharmaceutical industry. Carlo Montagner is a member of this group and the other members are independent consultants retained by the Company. The group's first meeting is to be held in the new financial year.

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

Audit	Remuneration	Science
J MacKenzie (Chairman) #	D Clarke (Chairman)	J Stocker (Chairman)
D Fisher	J Stocker	R Klupacs
D Clarke	J MacKenzie	L Serry (retired 29/2/08)
T McMeckan (appointed 19/1/08) #		G Kaufman (resigned 25/10/07)
		J Goding *

\# James MacKenzie resigned as Chairman of the Audit Committee and as member of the Remuneration Committee on 31 July 2008. Tina McMeckan was appointed Chairman of the Audit Committee on 21 August 2008.

* Dr James Goding is Professor of Pathology – Monash University, is an independent consultant and is not a director or an employee of the Company.

AUDITOR INDEPENDENCE

The directors have obtained a declaration of independence from Ernst & Young, the Group's auditors, which is contained in the financial report.

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

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

Tax compliance services	$20,000
Other tax services	$15,080
Assurance related	$ 5,365

REMUNERATION REPORT (audited)
This Remuneration Report outlines the remuneration arrangements in place for directors and executives of the Group in accordance with the requirements of the *Corporations Act 2001* and its Regulations. For the purposes of this report, *key management personnel* of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes all the executives in the parent and the Group. The Group only had four persons during the year that met the definition of executive, namely Robert Klupacs, Leon Serry (retired 29 February 2008), Natalie Korchev and Graeme Kaufman (resigned 25 October 2007). This will change in the next financial year due to the expansion of the management team.

Remuneration Committee

The Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the executive and non-executive directors and 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.

Remuneration Policy

The remuneration of key management personnel is designed to enable the Group to attract, motivate and retain non-executive officers and executive officers who will create value for shareholders and to fairly and responsibly remunerate them having regard to their performance, the performance of the Group and the general pay environment.

To this end, the Group has adopted the following principles in its remuneration framework: provide competitive rewards to attract high calibre executives; link executive rewards to shareholder value; and establish appropriate, demanding performance hurdles for variable executive remuneration.

Remuneration Structure

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

Non-Executive Director Remuneration

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

<u>Structure & Performance</u>
The Company's constitution and the ASX Listing Rules specify that the aggregate compensation of non-executive directors will be determined from time to time by a general meeting. An amount (not exceeding the amount approved at the General Meeting) is determined by the Board and then divided between the non-executive directors as agreed. The latest determination was at the Annual General Meeting on 6 October 2005 when shareholders approved the aggregate maximum sum to be paid or provided as compensation to the non-executive directors as a whole (therefore excluding the Managing Director and the Executive Director) for their services as $500,000 per annum. Currently, non-executive directors are compensated to an aggregate of $354,000 per annum.

REMUNERATION REPORT (audited) (continued)

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 (currently ranging between $46,000 to $75,000 per annum). Effective from 7 September 2006 an additional annual fee of $5,000 per committee is also paid for each Board committee on which a director sits, except for the Science Committee. The payment of additional fees for serving on a committee recognises the additional time commitment required by directors who serve on one or more sub committees. The time committed by the Chair of the Science Committee is recognised in his director's fee. 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 with the objective of annual formal performance evaluation (although this may occur every 12 to 20 months). An evaluation was conducted in June 2007 of the Board's performance against specific qualitative performance criteria, some of which are measurable. The next evaluation is planned to be performed before the end of the 2008 calendar year. The performance evaluation of the non-executive directors is aligned with their responsibilities under the Board Charter and includes areas such as: board structure, board role and responsibilities, strategy and planning, monitoring of company performance and board culture and relationships (amongst each director and with management).

The compensation of non-executive directors for the years ended 30 June 2008 and 30 June 2007 are detailed in Table 1 of this report.

Executive Remuneration

<u>Objective</u>
The Company aims to fairly and responsibly remunerate executives with a level and mix of remuneration 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.

<u>Structure & Performance</u>
In determining the level and make-up of executive remuneration, the Remuneration Committee engages external consultants as needed to provide independent advice and/or may also perform its own market research by accessing relevant remuneration reports prepared by third parties.

Compensation consists of the following key elements, the relative proportions of which are market based (note that short-term incentives were introduced for the first time during the 30 June 2007 financial year):

- Fixed remuneration (base salary and superannuation)
- Variable remuneration:
    - Short-term incentive (STI); and
    - Long-term incentive (LTI)

The non-executive directors are responsible for evaluating the performance of the Managing Director and of the other senior executives. The Managing Director also evaluates the performance of the other senior executives. The performance evaluation of the senior executives involves an assessment of the Company's business performance, whether short-term operational targets and individual performance objectives are being achieved and whether long-term strategic objectives are being achieved. Specific and measurable qualitative and quantitative performance criteria are used. Due to the nature of the Company's activities and the stage that it is at with respect to these activities, profitability is not a performance measure for STI's although effective management of the Company's resources in achieving value for shareholders is expected. LTI's are linked to share price appreciation and KPI's for STI's are linked to activities/milestones that are expected to create value for shareholders.

The performance of the Managing Director and the other senior executives is monitored on an informal basis throughout the year with the objective of performing a formal evaluation once a year. The process for evaluating the Managing Director's and senior executives' performance was reviewed in August 2008. The last Remuneration Committee at which a review of remuneration structure for the senior executives was performed in August 2008. The new key performance indicators are expected to be approved within the next month.

Table 1 of this report sets out the remuneration of directors and executives of the Company for the years ended 30 June 2008 and 30 June 2007 showing the proportion of fixed remuneration and variable remuneration.

REMUNERATION REPORT (audited) (continued)

Fixed Remuneration

Objective
The level of fixed compensation is set so as to provide a base level of compensation which is both appropriate to the position and is competitive in the market. As noted above, the Remuneration Committee has access to external advice independent of management.

Structure
Executives' fixed compensation comprises salary and superannuation and is reviewed every 12 to 20 months by the Remuneration Committee.

Variable Remuneration – Short Term Incentive (STI)

Objective
The objective of the STI program is to link the achievement of the Group's operational targets with the remuneration received by the executives charged with meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the executive to achieve the operational targets and such that the cost to the Group is reasonable in the circumstances. The STI was introduced for the first time during the 30 June 2007 financial year.

Structure
Actual STI payments in the form of cash bonuses to each senior executive depends on the extent to which specific targets set at the beginning of the financial year (or shortly thereafter) are met. The targets consist of a number of Key Performance Indicators (KPIs) covering corporate objectives and individual measures of performance. Individual KPIs are linked to the Company's strategy and annual business plan. Examples of personal objectives include the achievement of certain milestones for R&D projects and securing desirable out-licensing/collaboration agreements.

On an annual basis, after consideration of performance against KPIs, the Remuneration Committee, in line with its responsibilities, determines the amount, if any of the STI to be paid to each senior executive. This process occurs within two months after the relevant financial year end.

The maximum annual STI cash bonus available for each senior executive is subject to the approval of the Remuneration Committee. Payments of the STI bonus are made in the following reporting period.

STI bonus for the 2008 financial year
The Remuneration Committee considered the STI payment for the 2008 financial year within the first two months after the end of that year. The STI cash bonus that is to be paid for the 2008 financial year and which has been accrued is $132,500 plus relevant on-costs for senior executives. This has been determined on the basis of KPIs achieved by the senior executives.

There have been no alterations to the STI bonus plans since their inception.

Variable Remuneration – Long Term Incentive (LTI)

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

As such, LTI grants are made to key management personnel 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.

Options:
Share options are granted to key management personnel 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. All options issued have market performance conditions so as to align shareholder return and reward for the Company's key management personnel.

REMUNERATION REPORT (audited) (continued)

Options issued in 2004

With respect to the options issued in the 2004 financial year, the exercise prices were 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.

These options had four vesting dates, for various proportions of the total issued options, during the life of the options and are fully vested. The options issued in 2004 were "well out of the money" at the grant date and as at 30 June 2008.

Options issued in 2007 and 2008

In January 2007, a Circadian Senior Management Option Plan (Option Plan) was implemented to offer options which are subject to performance hurdles which have been set at the levels shown below as stretch targets to achieve value for shareholders. This replaced the Circadian Executive Performance Rights Plan. The options issued to key management personnel in 2007 and 2008 pursuant to this Option Plan were divided equally into three tranches.

The options in each tranche will vest on the satisfaction of the following performance conditions during the relevant option period (2007 options within 5 years of the grant date; 2008 options within approximately 4 years of grant date) (Performance Hurdles). The 2007 options issued have an exercise price of $1.50 and the 2008 options issued have an exercise price of $1.30 (Exercise Price).

- *Tranche 1* – a market price for a Circadian share (Share Price) achieves not less than 125% of the Exercise Price;
- *Tranche 2* – the Share Price achieves not less than 150% of the Exercise Price; and
- *Tranche 3* – the Share Price achieves not less than 175% of the Exercise Price.

The Share Price is to be calculated as the volume weighted average share price of Circadian shares traded on the ASX over a consecutive 15 day trading period.

Vested options may only be exercised at any time in the last 12 months of the relevant option period.

The Exercise Price is subject to any adjustment which is required under the ASX Listing Rules as a consequence of a capital reorganisation or a pro rata rights issue of shares which occurs after the grant of the options but prior to the exercise of the options.

The options issued in 2008 were to Robert Klupacs, pursuant to an Executive Contract dated 20 December 2007.

The Board has residual discretion to accelerate vesting (i.e. reduce or waive the Performance Hurdles) and exercise of options in the event of a takeover or merger or any other circumstance in accordance with the terms of the Option Plan.

Options in relation to which performance conditions have not been satisfied (i.e. that do not vest) will lapse and will not be able to be exercised, except in circumstances as described below.

Options which have not vested will lapse where an option holder ceases employment with Circadian other than on retirement, redundancy, death or total and permanent disablement, or unless as otherwise determined by the Board in its absolute discretion.

Where an option holder has ceased employment with Circadian as a result of resignation, retirement, redundancy, death or total and permanent disablement prior to the end of a performance period but not before the first anniversary of grant date, options (whether vested or not) may be retained by the option holder on a pro-rata basis (the pro-rata being calculated over the period from grant date).

Performance rights:

The Performance Rights Plan (Plan) which was established during the 2006 financial year has been replaced by the Senior Management Option Plan and only one grant of rights was made under the Plan.

The Group used a relative Total Shareholder Return (TSR) as the performance hurdle in granting performance rights to its key management personnel. The objective of using the TSR based hurdle was to align comparative shareholder return and reward for the Company's key management personnel.

REMUNERATION REPORT (audited) (continued)

An assessment was performed shortly after 30 June 2008 to determine whether the performance hurdles were met for the performance rights granted in November 2005. This assessment was performed based on Circadian's TSR relative to a comparator group of companies over the three-year performance period ending on 30 June 2008. The comparator group of companies was the 50 listed ASX listed ranked both above and below Circadian by market capitalisation, excluding listed property trusts, at the time of grant. Circadian's TSR fell short of the median of the comparator group for the three year period. As such the performance rights did not vest and lapsed as at 30 June 2008.

The assessment was performed by the independent consulting firm which recommended these performance rights as a long-term incentive.

Shareholder Returns/Value
The following is a summary of shareholder returns/value for the last four financial years:

	2008 **$**	**2007** **$**	**2006** **$**	**2005** **$**	
Basic earnings/(loss) per share	(0.03)	0.28	(0.16)	0.54	(i)
Capital return per share	-	-	-	0.38	(i)
Dividends per share	-	-	-	0.27	(i)
NTA backing per share @ 30 June	1.28	1.52	1.41	1.12	
Circadian share price @ 30 June	0.88	1.28	1.05	1.18	

(i) In the 2005 financial year, Circadian made a profit due to its 15% interest in a genomics instrumentation company (Axon Instruments Inc) being acquired by a U.S. entity. This provided the Company with a gain of approximately $30 million on the transaction (a non-recurring transaction). Due to this and the significant increase in the cash balance arising from this transaction, the Company paid a dividend and made a capital return to its shareholders.

Due to the nature of the Group's activities (being in the biotechnology industry) as described under Principal Activities, results year to year do fluctuate. The share price has decreased since last year end as it has for many companies in the biotechnology sector. The factors contributing to this year's and last year's results are described under Operating and Financial Review of this report.

Employment contracts
Mr Robert Klupacs, who was appointed Managing Director effective 1 March 2008, is employed under a rolling contract. The current employment contract commenced on 1 December 2007. Under the terms of the present contract:

- Mr Klupacs receives fixed remuneration of $350,000 per annum.
- Mr Klupacs may resign from his position and thus terminate this contract by giving:
  - 6 months notice if the notice of termination is given prior to 1 March 2009; or
  - 3 months notice if the notice of termination is given on or after 1 March 2009.

  On resignation, any unvested LTI options will be forfeited.

- The Company may terminate this employment agreement by providing:
  - 12 months written notice if the notice of termination is given prior to 1 March 2009; or
  - 6 months notice if the notice of termination is given on or after 1 March 2009; or
  - payment in lieu of the notice period (as detailed in above two points) based on the fixed component of Mr Klupacs' remuneration and a pro-rata of that part of the annual STI (if any) that is payable in cash at the time of termination. As stated earlier in this report, STI's are payable on the achievement of KPI's.

  On termination on notice by the Company, any LTI options that have vested or that will vest during the notice period will be released. LTI options that have not yet vested will be forfeited.
- The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs, Mr Klupacs is only entitled to that portion of remuneration that is fixed, and only up to the date of termination. On termination with cause, any unvested options will immediately be forfeited.

Mr Klupacs was also granted 500,000 options under the terms of the contract. Refer to "Options issued in 2007 and 2008" for terms and conditions of the options granted.

REMUNERATION REPORT (audited) (continued)

Remuneration of key management personnel

Table 1: Remuneration for the year ended 30 June 2008 (Consolidated)

		Short-Term		Post Employ-ment	Long-Term	Termin-ation Benefits	Share-based Payment	Total	Total Performance Related
		Salary & Fees	Cash Bonus	Super-annuation	Long service leave	Termination Pay	Options/rights*^		
		$	$	$	$	$	$	$	%
Non- Executive Directors:									
D Fisher	2008	80,004	-	7,200	-	-	-	87,204	-
	2007	77,789	-	7,001	-	-	-	84,790	-
J Stocker	2008	69,996	-	6,300	-	-	-	76,296	-
	2007	69,079	-	6,217	-	-	-	75,296	-
D Clarke	2008	56,004	-	5,040	-	-	-	61,044	-
	2007	54,158	-	4,874	-	-	-	59,032	-
T McMeckan [1]	2008	23,015	-	2,071	-	-	-	25,086	-
	2007	-	-	-	-	-	-	-	-
J MacKenzie	2008	56,004	-	5,040	-	-	-	61,044	-
	2007	54,158	-	4,874	-	-	-	59,032	-
Sub-total Non-Executive Directors	**2008**	**285,023**	**-**	**25,651**	**-**	**-**	**-**	**310,674**	**-**
	2007	255,184	-	22,966	-	-	-	278,150	-
Executive Directors:									
R Klupacs [2]	2008	341,669	87,500	38,625	-	-	107,272	575,066	33.87
	2007	296,063	75,000	33,396	-	-	38,597	443,056	25.64
L Serry [3]	2008	417,160	-	34,925	7,308	-	11,095	470,488	2.36
	2007	582,084	37,500	55,763	10,962	-	542,245^	1,228,554	47.19
G Kaufman [4]	2008	131,283	-	9,600	-	46,359	-	187,242	-
	2007	311,928	20,000	29,874	-	-	49,396	411,198	16.88
Other Key Management Personnel:									
N Korchev	2008	249,996	45,000	26,550	7,438	-	22,287	351,271	19.16
	2007	225,004	20,000	22,050	13,399	-	9,324	289,777	10.12
Sub-total Executive KMP	**2008**	**1,140,108**	**132,500**	**109,700**	**14,746**	**46,359**	**140,654**	**1,584,067**	
	2007	1,415,079	152,500	141,083	24,361	-	639,562	2,372,585	
Totals	**2008**	**1,425,131**	**132,500**	**135,351**	**14,746**	**46,359**	**140,654**	**1,894,741**	
	2007	1,670,263	152,500	164,049	24,361	-	639,562	2,650,735	

1 Appointed 19 January 2008
2 Appointed as Managing Director on 1 March 2008. R Klupacs was an executive of the Company prior to his directorship appointment.
3 Retired 29 February 2008
4 Resigned 25 October 2007
5 No non-monetary benefits have been provided to key management personnel.

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

^ Of this amount, $510,975 relates to the options granted to L Serry in the 2007 financial year which are on the same terms as options granted to other executives in 2007 except that due to his tenure with the Company (he was with the Company for over 20 years), he retains all options issued regardless of his

Table 1: Remuneration for the year ended 30 June 2008 (Consolidated) (continued)

retirement date. However, pursuant to the terms of the options, certain share price hurdles must be met (as described earlier) before they vest and vested options may not be exercised earlier than 8 February 2011 (see Table 2 and note 28 of the financial report for further details). Due to L Serry being able to retain all options regardless of his retirement date, accounting standard AASB 2 *Share-Based Payments* requires all of the options granted to L Serry to be expensed on date of grant irrespective of the fact that they have not vested and will not be exercisable until 2011.

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 2007 and 2008 financial years, and has been determined by allocating the fair value of the options equally over their respective vesting periods.

The value of the performance rights attributed to compensation of certain key management personnel for the current year has been determined based on amortising the value of total performance rights issued on a straight line basis from grant date to vesting date. The performance rights were granted in the 2006 financial year, however as noted above, these performance rights lapsed as at 30 June 2008.

Refer to note 28 of the financial report for details on the valuation of options and performance rights.

Table 2: Compensation options: Granted and vested during the year (Consolidated)

		Granted during year		**Terms & Conditions for each Grant**					**Vested during year***
		No.	Grant Date	Fair value per option/right at grant date (note 29)	Exercise price per option/right (note 29)	Expiry Date	First Exercise Date	Last Exercise Date	No.
Directors									
R Klupacs	2008	500,000	18/2/08	$0.246 - $0.276	$1.30	8/2/12	8/2/11	8/2/12	-
	2007	500,000	8/2/07	$0.675 - $0.686	$1.50	8/2/12	8/2/11	8/2/12	-
L Serry	2008	-							-
	2007	750,000	8/2/07	$0.675 - $0.686	$1.50	8/2/12	8/2/11	8/2/12	125,000
G Kaufman (i)	2008	-							-
	2007	500,000	8/2/07	$0.675 - $0.686	$1.50	8/2/12	8/2/11	8/2/12	62,500
Executive									
N Korchev	2008	-							-
	2007	100,000	8/2/07	$0.675 - $0.686	$1.50	8/2/12	8/2/11	8/2/12	
		50,000	5/3/07	$0.41 - $0.433	$1.50	9/3/12	9/3/11	9/3/12	6,250
Total Options	**2008**	**500,000**							**-**
	2007	1,900,000							193,750

* The number of options that vested in the 2007 financial year includes the relevant portion of those granted in the 2004 financial year. The options issued in the 2004 financial year have fully vested, however they have not been exercised as at the reporting date as they are "well out of the money".

(i) The options granted to G Kaufman in the 2007 financial year were forfeited during the current year. G Kaufman resigned on 25 October 2007 before reaching minimum tenure requirements to retain a pro-rata entitlement of options issued to him and before these options had vested.

During the current financial year, options were granted as equity remuneration benefits under the long-term incentive plan to the Managing Director as disclosed in Table 2 above (these were granted prior to his appointment as Managing Director). No options have been granted to the non-executive directors under this scheme.

There were no options granted or shares issued to key management personnel since the end of the financial year.

REMUNERATION REPORT (audited) (continued)

Table 3: Options granted as part of remuneration (Consolidated) [1]

	Total value of options granted during the year $	Value of options expensed during the year [2] $	Value of options exercised during the year $	Value of options lapsed/forfeited during the year [3] $	% Remuneration consisting of options for the year [4]
R Klupacs	131,433	16,864	-	-	18.65%
N Korchev	-	-	-	-	-
L Serry	-	-	-	-	-
G Kaufman	-	-	-	523,150	-

1 For details on the valuations of the options, including models and assumptions used, refer to note 28 of the financial statements.

2 The values in this column reflect the amount recognised as an expense during the year only on the options granted during the year.

3 The options granted to G Kaufman in the 2004 and 2007 financial years were forfeited during the current year. G Kaufman resigned on 25 October 2007 before reaching minimum tenure requirements to retain a pro-rata entitlement of options issued to him in February 2007 and before these options had vested.

4 This column reflects the percentage of remuneration consisting of options and performance rights expensed during the year relating to current year and prior year grants.

No options were exercised during the current year nor did any options lapse during the year other than the forfeiture of G Kaufman's options as described in 3 above.

There were no alterations to the terms and conditions of options granted as remuneration since their grant date.

Performance rights (Consolidated)
The performance rights granted in November 2005 lapsed as at 30 June 2008 as described earlier in this report under "Performance Rights". In respect to the performance rights issued to G Kaufman, he resigned before the end of the performance period and consequently his performance rights were forfeited.

The total value of the performance rights that lapsed or were forfeited during the year are as follows:

R Klupacs	$13,932
L Serry	$29,465
G Kaufman	$15,790

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 2008 and 2007 financial years as they were either "out of the money" or had not vested.

This report has been signed in accordance with a Resolution of the Directors made on 21 August 2008.

For and on behalf of the Board:

Robert Klupacs
Director

Dominique Fisher
Director

Melbourne
21 August 2008

OPERATIONS REPORT

Circadian's New Direction: A developer of therapeutics for cancer & other serious diseases

Robert Klupacs, Managing Director & CEO

Since the end of last year the Circadian Group has undergone a significant and positive transition in its business.

Circadian has moved from being a biotechnology investor and incubator to a developer of therapeutics for cancer and other serious diseases pursuant to the strategy announced in June 2008. This is based on the outstanding progress achieved with the development of the intellectual property of its subsidiary company Vegenics Limited (relating to Vascular Endothelial Growth Factors (VEGF) C, D and R-3).

Leadership of the company changed at the end of February this year with the retirement of Circadian's founder Leon Serry after 24 years at the helm. He left the Circadian Group in a strong cash position, with listed assets and Vegenics' significant IP portfolio, providing a tremendous base for Circadian's future growth as a drug development company.

The key aspects with respect to our drug development business are:

- Continuing to build on what is **the most comprehensive intellectual property portfolio relating to VEGF-C, VEGF-D and VEGFR-3 molecules of any company in the world**, that has been accumulated in our 100% owned subsidiary Vegenics. This IP is the basis of our ongoing drug development programs, the initial and primary focus being on cancer therapies. Genentech Inc's multi-billion dollar anti-cancer drug Avastin® is an antibody therapy against the closely related VEGF-A. An expanding body of scientific literature suggests that targeted VEGF-C and VEGF-D alone or in combination with Avastin® may provide more effective anti-cancer treatments through starvation of tumour blood vessel growth (angiogenesis therapies).
- **Ownership of 100% of Vegenics** (previously 67% owned by Circadian). On 14 August 2008 Circadian acquired an additional 33% interest in Vegenics from our cofounders of that company, the Ludwig Institute for Cancer Research Ltd (LICR) and Licentia Limited which provides us with complete ownership of Vegenics' product pipeline and its extensive intellectual property portfolio. Under this transaction LICR and Licentia have become substantial shareholders of Circadian. The Directors' Report provides further details regarding the terms of this transaction.
- **Utilising our strong financial resources**. We have at the date of this report approximately **$58 million in cash and listed investments** ($45 million and $13 million respectively, equating to approximately $1.28 per share).
  Our strong cash position and our listed investments, which are effectively a source of future cash, enable us to drive our drug development program and will provide strength in negotiating future licensing or partnering arrangements.
- **Ongoing product development by licensed partners who are leaders in their fields.**
  UK company Ark Therapeutics (LSE:AKT) is developing Trinam® which is expected to enter Phase III studies in the second half of 2008. Trinam® is a treatment for vascular grafts associated with renal dialysis using our VEGF-D gene. US listed company ImClone Systems Inc (NASD:IMCL) is developing an antibody to VEGFR-3 for the treatment of solid tumours.
  Ark is one of the world's most advanced gene therapy companies and ImClone (market capitalisation: US$5.5 billion) is one of the world's leaders in the development of therapeutic antibodies as cancer therapies having developed the drug Erbitux®.
  We earn minimum annual royalties and annual license fees respectively from these companies and will receive payments on achievement of product development milestones as well as royalties on sales.

- **The development of our own product pipeline.** Our most advanced drug candidate, VGX-100 for the treatment of cancer is commencing pre-clinical studies with manufacturing being undertaken by Swedish company BioInvent AB. VGX-100 is an antibody to VEGF-C. We are also developing our VGX-200 series of humanized VEGF-D antibodies as anti-cancer agents, and VGX-300 (a soluble VEGFR-3 protein) for selected cancer applications.
- **Expanding our management team.** We have bolstered our capabilities in drug research and development (with specific experience in angiogenesis and therapeutic antibodies), in business development and in IP management through the recruitment of a highly experienced and credentialed management team.
- **Establishing a world class and internationally experienced Product Development Review Group.** The members of this Group bring vast experience in international drug development including toxicology, clinical development, oncology and therapeutic antibodies.

The board has also engaged additional, complimentary skills with the appointments of Ms Tina McMeckan, Mr Carlo Montagner and Dr Jonathan Skipper as directors. Together they bring to the company international pharmaceutical and licensing experience and skills in commercialisation of science and technology.

With a continuing and enhanced focus on drug development, a strong board of directors and an outstanding management and advisory team we look forward to consolidating the successes of the past six months and building further exceptional value for shareholders over the next few years.

Robert Klupacs
Managing Director & CEO
21 August 2008

Our Strategy

Our business is to develop new biological therapeutic agents which can inhibit angiogenesis, primarily as novel anti-cancer agents and other diseases where angiogenesis is a key component.

Our drug development and commercialisation strategy is to develop therapeutic products to treat cancer and other diseases up to the demonstration of proof of efficacy in Phase II human trials, with subsequent clinical development being undertaken in partnership with larger pharmaceutical and/or biotechnology companies. These products are based on the intellectual property and know-how owned and controlled by Circadian’s 100% owned subsidiary Vegenics Limited.

We will consider entering into earlier partnerships if appropriate and will also selectively exploit parts of our product and intellectual property portfolio, which don’t relate to angiogenesis inhibition, through partnering deals at earlier stages of development in order to mitigate development risk and the use of the Group’s significant cash and listed investment assets. There is potential for this to occur in the next one to two years based on the demonstrated willingness of large pharmaceutical and biotech companies in the last 12 to 18 months to sign-up early-stage deals, particularly in the field of angiogenesis and therapeutic antibodies.

The intellectual property accumulated in Vegenics has applications not just in cancer, which is the Group’s primary and initial therapeutic development focus, but also in a number of other areas such as eye disease and inflammation. Accordingly there are a number of large market opportunities the Group could develop itself or in partnership with others.

The Group will continue to expand its intellectual property rights and product portfolio around the core area of cancer as well as in other disease areas.

What is angiogenesis?
Angiogenesis - the process of growing new blood vessels - involves a complex network of signalling molecules known as growth factors and their receptors. Cancer cells manipulate this process by inappropriately sending out growth factors to generate their own blood vessel network providing nutrients for growth. Multi-billion dollar selling drug Avastin®, which is sold worldwide by Genentech Inc and Hoffman-La Roche, works by inhibiting the angiogenic stimulating properties of the VEGF-A protein.

Our Products

Products we are developing

Our efforts are currently being prioritised around one antibody, VGX-100 as a cancer therapeutic, but we also have two further product development candidates in our pipeline.

The lead molecule VGX-100 (a human VEGF-C antibody) commenced clinical Good Manufacturing Practice (cGMP) production through a contract manufacturing relationship with the Swedish company BioInvent AB. VGX-100 is being developed as a treatment for solid tumours.

Our other potential product development candidates, the VGX-200 series (humanized VEGF-D antibodies), being developed in collaboration with Arana Therapeutics Limited and VGX-300 (soluble VEGFR-3 protein) have progressed with the first phase of the VGX-200 collaboration with Arana expected to be completed in Q4 2008.

Products being developed by our licensees: Ark Therapeutics Group plc and ImClone Systems Inc

Vegenics has licensing agreements with Ark Therapeutics Group plc (LSE:AKT) in respect of its intellectual property covering the VEGF-D gene. Ark is developing a VEGF-D gene therapy product known as Trinam®. In June 2008 Ark announced that, following full review by the US Food and Drug Administration (FDA), the application for Special Protocol Assessment (SPA) for its Trinam® Phase III trial, filed in April 2007, has been successful and the FDA has formally given SPA approval. Trinam® is being developed to prevent blood vessels blocking in kidney dialysis patients who have undergone vascular access graft surgery. Ark has commenced work to start the planned Phase III trial and, in addition, intends to apply to the FDA for Fast Track Designation.

The SPA process allows Ark to work closely with the FDA to ensure the design and conduct of the Phase III development programme, including the definitive clinical objectives and data analyses, are appropriate to support a marketing licence application (BLA). Trinam® has already been given Orphan Drug Status in the USA and Europe.

The Phase III study will be a US multi-centre, randomised, controlled trial, in which the efficacy and safety of Trinam® will be investigated in patients with end stage renal disease (ESRD) requiring vascular access for haemodialysis.

Ark has reported that it expects its Phase III studies to commence in H2 2008.

Results from a Phase II open-label, non-randomised, standard-care controlled trial of Trinam®, previously reported by Ark in March 2007, indicated that the access grafts of patients given the planned Phase III dose of Trinam® exhibited almost three times the Primary Unassisted Patency compared with controls. Overall patency data from the Phase II study further showed Trinam® treatment resulted in grafts remaining functional for dialysis, on average, over three times longer than in untreated controls.

Vegenics has also entered into licensing agreements with ImClone Systems Inc (NSDQ:IMCL) in respect of antibodies to VEGFR3 for human therapeutic purposes. ImClone is currently developing a lead antibody designated hF4-3C5. It is expected that ImClone may designate hF4-3C5 a formal clinical development candidate for the treatment of solid tumours within the next 4-6 months.

Further information on our partners can be obtained via their websites www.arktherapeutics.com and www.imclone.com.

Our Technology and Patents

Technology

The clinical and commercial success of Avastin®, an antibody that blocks the activity of VEGF-A, clinically validated anti-angiogenic drugs as an effective means of inhibiting solid tumour growth. By blocking the interaction of VEGF-A with its receptors, primarily VEGFR-2, the multi-billion dollar cancer therapeutic slows tumour growth by inhibiting blood vessel recruitment into the tumour, effectively starving tumours of essential nutrients and oxygen required for growth. Avastin® which is sold by Genentech Inc and Hoffman-La Roche had US sales in 2007 of $US2.3B and worldwide sales in excess of $US6B.

Because VEGF-C and VEGF-D also can stimulate angiogenesis by interacting with VEGFR-2, inhibitors of these molecules might also have significant additional anti-angiogenic effects. As such, they have the potential to block blood vessel growth in tumours resistant to anti-VEGF-A therapy and when used in combination with drugs like Avastin® , may further inhibit angiogenesis (the growth of blood vessels) mediated by VEGFR-2, resulting in greater clinical efficacy.

VEGF-C and VEGF-D also bind and activate VEGFR-3 which drives lymphatic vessel and tumour-associated blood vessel growth. Inhibitors of VEGF-C, VEGF-D and VEGFR-3 thus have therapeutic potential to inhibit not only primary tumour growth through their anti-angiogenic activities, but to also inhibit tumour spread or metastasis via the lymphatic vessels - a mechanism of tumour dissemination that is often the deadliest aspect of many tumour types and a mechanism that is not thought to be effectively blocked by anti-VEGF-A or anti-VEGFR-2 therapeutics.

In June 2008, the VEGF technologies being developed by Circadian received a major scientific validation when the prestigious scientific journal *Nature* reported that researchers had uncovered a previously unknown and important role of the molecule VEGFR-3 in directing the formation of blood supply to tumours. VEGFR-3 forms part of the IP portfolio controlled by Circadian's wholly owned subsidiary Vegenics. The paper's authors established that VEGFR-3 has a previously unknown role in signalling blood vessel 'sprouting'. Using antibodies to block both receptors, VEGFR-2 and VEGFR-3, the research team found an additive effect in inhibition of tumour growth by effectively starving the cancer cells. The findings indicate that the efficacy of existing anti-angiogenic therapies, such as Avastin® used in cancer therapy, may be improved by the addition of agents which inhibit VEGFR-3 mediated angiogenesis such as VEGF-C or VEGF-D antibodies.

Patents

Circadian's subsidiary Vegenics has the most comprehensive IP portfolio relating to VEGF-C, VEGF-D and VEGFR-3 molecules of any company in the world. This IP portfolio has applications not just in cancer but also in a number of other areas such as eye disease and inflammation as further described below.

The VEGF patent portfolio, originally developed by the Ludwig Institute for Cancer Research Ltd and Licentia Ltd, the commercial arm of the University of Helsinki, and assigned to Vegenics in 2007, comprises more than 250 granted patents in the USA, Europe, Japan and Australia and over 500 pending patents worldwide in respect of VEGF-C, VEGF-D and VEGFR-3 and their inhibitors as well as various uses thereof. In August 2008 Vegenics was granted a further patent in the US covering all therapeutic and diagnostic uses for antibodies to VEGF-D. The expiration of the various patents is between 2015-2025 with further IP filings being made and to be made to further extend patent life pursuant to our IP strategy.

Listed Investments

Over time and at appropriate valuations, Circadian will move to divest itself of its listed and unlisted holdings as it did earlier in the year with the disposal of its remaining holding in Metabolic Pharmaceuticals Limited (MBP) at substantially above market price. During the year the company also continued to decrease its holding in Avexa Limited (AVX) from approximately 3.4% to under 2% (Circadian's original interest in Avexa was 19%). Details regarding the gains made on these disposals are contained in the Director's Report and the financial report.

Circadian continues to be the largest shareholder in each of Antisense Therapeutics Limited (ANP) and Optiscan Imaging Limited (OIL).

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 and development projects and technology investments. Investment in research and development 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 Group's projects and interests and the development and therapeutic potential of the Group's research and development projects. Any statement describing a goal, expectation, intention or belief of the Group 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 Group's research and development projects and interests (where applicable) will be successful or 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 Group's research and development program referred to in this annual report for the period ended 30 June 2008.

CIRCADIAN TECHNOLOGIES LIMITED AND CONTROLLED ENTITIES

ABN 32 006 340 567

Annual Financial Report
for the year ended 30 June 2008

Contents

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

In relation to our audit of the financial report of Circadian Technologies Limited for the financial year ended 30 June 2008, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst + Young

Ernst & Young

Lonergan

Joanne Lonergan
Partner
21 August 2008

Balance Sheet

AS AT 30 JUNE 2008

	Note	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
ASSETS					
Current Assets					
Cash and cash equivalents	11	46,216,626	48,193,383	33,267,324	30,779,151
Receivables	12	536,923	313,112	337,500	210,902
Prepayments		323,330	191,649	41,234	42,267
Other financial assets	13	-	14,213	-	-
Total Current Assets		**47,076,879**	**48,712,357**	**33,646,058**	**31,032,320**
Non-Current Assets					
Financial investments and subsidiaries	14	3,916,107	16,118,504	29,491,803	29,585,578
Investments in associates	15	2,361,158	1,755,615	-	-
Intercompany receivables	26	-	-	175,398	235,057
Deferred tax assets	9	418,738	190,327	415,959	186,004
Plant and equipment	16	79,715	81,877	70,269	80,202
Total Non-Current Assets		**6,775,718**	**18,146,323**	**30,153,429**	**30,086,841**
TOTAL ASSETS		**53,852,597**	**66,858,680**	**63,799,487**	**61,119,161**
LIABILITIES					
Current Liabilities					
Payables	18	1,665,234	2,332,337	361,698	381,685
Intercompany payables	26	-	-	2,763,636	3,700,090
Income tax payable		-	355,497	-	355,497
Provisions	19	121,551	417,290	110,181	417,290
Total Current Liabilities		**1,786,785**	**3,105,124**	**3,235,515**	**4,854,562**
Non-Current Liabilities					
Deferred tax liability	9	648,660	2,759,206	84,190	29,296
Provisions	20	9,739	28,643	9,739	28,643
Total Non-Current Liabilities		**658,399**	**2,787,849**	**93,929**	**57,939**
TOTAL LIABILITIES		**2,445,184**	**5,892,973**	**3,329,444**	**4,912,501**
NET ASSETS		**51,407,413**	**60,965,707**	**60,470,043**	**56,206,660**
EQUITY					
Equity attributable to equity holders of the parent					
Contributed equity	21	33,167,977	33,167,977	33,167,977	33,167,977
Retained earnings	22	13,883,872	15,031,677	25,547,101	21,397,036
Reserves	22	373,621	7,645,796	1,754,965	1,641,647
Parent interests		**47,425,470**	**55,845,450**	**60,470,043**	**56,206,660**
Minority interests	23	**3,981,943**	**5,120,257**	**-**	**-**
TOTAL EQUITY		**51,407,413**	**60,965,707**	**60,470,043**	**56,206,660**

The above balance sheet should be read in conjunction with the accompanying notes.

Income Statement

FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Finance revenue		3,264,748	2,042,919	2,520,126	1,694,727
Investment income		4,508,091	27,679,172	-	-
Dividends		-	-	5,400,000	10,200,000
Other revenue		374,918	163,796	915,000	322,554
Revenue	6	**8,147,757**	**29,885,887**	**8,835,126**	**12,217,281**
Other income	7	151,552	390,507	258,596	4,639,805
Research & development expenses	25	(3,419,266)	(3,155,206)	-	-
Patent expenses		(1,838,058)	(2,011,963)	-	-
Intellectual property costs	8(a)	(113,533)	(7,899,850)	-	-
Administrative expenses		(3,495,095)	(3,868,536)	(2,860,751)	(3,628,484)
Occupancy expenses		(130,600)	(116,872)	(130,600)	(116,872)
Impairment losses	8(b)	(46,645)	(39,504)	(40,000)	-
Finance costs	8(c)	-	-	(324,976)	-
Impairment of receivables from subsidiaries		-	-	(1,487,797)	(1,553,672)
Share of net loss of associates	15(f)	(372,981)	(975,930)	-	-
Impairment of goodwill	17	-	(149,218)	-	-
Other		-	(40,862)	-	50,635
(Loss)/profit before income tax		**(1,116,869)**	**12,018,453**	**4,249,598**	**11,608,693**
Income tax expense	9	(1,169,250)	(5,722,746)	(99,533)	(124,413)
Net (loss)/profit for the year		**(2,286,119)**	**6,295,707**	**4,150,065**	**11,484,280**
Attributable to:					
Minority interests		(1,138,314)	(4,907,675)	-	-
Members of the parent	22	(1,147,805)	11,203,382	4,150,065	11,484,280

	Note	Cents	Cents
Earnings per share for (loss)/profit attributable to the ordinary equity holders of the parent:	10		
- basic (loss)/earnings per share		(2.86)	27.92
- diluted (loss)/earnings per share		(2.86)	27.74

The above income statement should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2008

		Attributable to equity holders of the parent				Minority interest	Total equity
CONSOLIDATED	**Note**	**Issued capital $**	**Retained earnings $**	**Other reserves $**	**Total $**	**$**	**$**
At 1 July 2006		**33,167,977**	**3,828,295**	**19,594,825**	**56,591,097**	**99,479**	**56,690,576**
Net gains on non-current listed investments for the year	22(b)	-	-	5,531,858	5,531,858	-	5,531,858
Realised gains on non-current listed investments transferred to the income statement	22(b)	-	-	(12,002,931)	(12,002,931)	-	(12,002,931)
Realised gain on held for sale investment transferred to the income statement	22(b)	-	-	(1,088,186)	(1,088,186)	-	(1,088,186)
Net gain on new share issue by associate	15	-	-	202,476	202,476	-	202,476
Total income and expense for the year recognised directly in equity		**-**	**-**	**(7,356,783)**	**(7,356,783)**	-	**(7,356,783)**
Profit/(loss) for the year		-	11,203,382	-	11,203,382	(4,907,675)	6,295,707
Total recognised income and expense for the year		**-**	**11,203,382**	**(7,356,783)**	**3,846,599**	**(4,907,675)**	**(1,061,076)**
Cost of share-based payment	22(b)	-	-	646,207	646,207	-	646,207
Capital injection by minority interests		-	-	-	-	4,690,000	4,690,000
Acquisition of minority interests	22(b)	-	-	(5,238,453)	(5,238,453)	5,238,453	-
At 30 June 2007		**33,167,977**	**15,031,677**	**7,645,796**	**55,845,450**	**5,120,257**	**60,965,707**
At 1 July 2007		**33,167,977**	**15,031,677**	**7,645,796**	**55,845,450**	**5,120,257**	**60,965,707**
Net loss on non-current listed investments for the year	22(b)	-	-	(4,122,130)	(4,122,130)	-	(4,122,130)
Realised gains on non-current listed investments transferred to the income statement	22(b)	-	-	(3,459,191)	(3,459,191)	-	(3,459,191)
Net gain on new share issue by associate	15	-	-	144,849	144,849	-	144,849
Other equity reserves		-	-	50,979	50,979	-	50,979
Total income and expense for the year recognised directly in equity		**-**	**-**	**(7,385,493)**	**(7,385,493)**	**-**	**(7,385,493)**
Loss for the year		-	(1,147,805)	-	(1,147,805)	(1,138,314)	(2,286,119)
Total recognised income and expense for the year		**-**	**(1,147,805)**	**(7,385,493)**	**(8,533,298)**	**(1,138,314)**	**(9,671,612)**
Cost of share-based payment	22(b)	-		113,318	113,318	-	113,318
At 30 June 2008		**33,167,977**	**13,883,872**	**373,621**	**47,425,470**	**3,981,943**	**51,407,413**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2008

		Total equity			
PARENT	**Note**	**Issued capital $**	**Retained earnings $**	**Other reserves $**	**Total $**
At 1 July 2006		**33,167,977**	**9,912,756**	**995,440**	**44,076,173**
Profit for the year		-	11,484,280	-	11,484,280
Total recognised income and expense for the year		**-**	**11,484,280**	**-**	**11,484,280**
Cost of share-based payment	22(b)	-	-	646,207	646,207
At 30 June 2007		**33,167,977**	**21,397,036**	**1,641,647**	**56,206,660**
At 1 July 2007		**33,167,977**	**21,397,036**	**1,641,647**	**56,206,660**
Profit for the year		-	4,150,065	-	4,150,065
Total recognised income and expense for the year		**-**	**4,150,065**	**-**	**4,150,065**
Cost of share-based payment	22(b)	-	-	113,318	113,318
At 30 June 2008		**33,167,977**	**25,547,101**	**1,754,965**	**60,470,043**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Cash flows from operating activities:					
Proceeds from sale of investments		5,479,759	45,343,125	-	-
Acquisition of financial investments/subsidiary		(650,000)	(3,998,880)	-	(21,500,000)
Interest received		3,129,121	1,931,833	2,107,419	1,434,247
Receipt of government grants (inclusive of GST)		35,669	132,883	-	-
Royalty and license income received		557,668	175,398	-	-
Management fees received (inclusive of GST)		-	-	990,000	247,500
Dividend income		-	-	5,400,000	10,200,000
Other receipts (inclusive of GST)		16,500	24,804	16,500	24,804
Payments to suppliers, employees and for research & development and intellectual property costs (inclusive of GST)		(10,027,385)	(10,637,591)	(3,167,310)	(3,244,153)
Income tax paid		(339,424)	-	(339,424)	-
Net cash flows from/(used in) operating activities	24(a)	**(1,798,092)**	**32,971,572**	**5,007,185**	**(12,837,602)**
Cash flows from investing activities:					
Proceeds from sale of plant and equipment		3,086	700	3,086	700
Purchase of plant and equipment		(32,261)	(66,101)	(23,230)	(64,374)
Receipts on behalf of subsidiaries		-	-	5,479,759	45,343,126
Payments on behalf of subsidiaries		-	-	(1,629,137)	(4,960,840)
Repayment of loans from subsidiaries		-	-	(5,400,000)	(10,200,000)
Loans to subsidiaries		-	-	(800,000)	(790,000)
Repayment of loan to subsidiary		-	-	-	50,000
Loan to associate		(40,000)	-	(40,000)	-
Net cash flows from/(used in) investing activities		**(69,175)**	**(65,401)**	**(2,409,522)**	**29,378,612**
Cash flows from financing activities:					
Proceeds from issue of shares to minority interest		-	690,000	-	-
Payment of unfranked dividends	(i)	(41,188)	(4,658)	(41,188)	(4,658)
Return of capital to shareholders	(i)	(68,302)	(5,590)	(68,302)	(5,590)
Net cash flows from/(used in) financing activities		**(109,490)**	**679,752**	**(109,490)**	**(10,248)**
Net increase (decrease) in cash and cash equivalents		(1,976,757)	33,585,923	2,488,173	16,530,762
Cash and cash equivalents at beginning of year		48,193,383	14,607,460	30,779,151	14,248,389
Cash and cash equivalents at end of year	11	**46,216,626**	**48,193,383**	**33,267,324**	**30,779,151**

(i) Dividends and a return of capital to shareholders were declared during the financial year ended 30 June 2005. During the current year, all unclaimed monies were paid over to the State Revenue Office. The prior year payments are to those shareholders who were not paid during the financial year ended 30 June 2005 due to their addresses being unknown at that time.

The above cash flow statement should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

1. CORPORATE INFORMATION

The financial report of Circadian Technologies Limited (the Company) for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of the directors on 21 August 2008.

Circadian Technologies Limited (the parent) 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 the Directors' Report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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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*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis, except that investments classified as available-for-sale, non-current receivables from subsidiaries and non-current payables to subsidiaries are carried at amortised cost, listed options are carried at fair value, and investments in associates have been equity accounted.

The financial report is presented in Australian dollars.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Compliance with IFRS

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board.

(b) New accounting standards and interpretations

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2008. These are outlined in the table below.

Reference	Title	Summary	Application date of standard *	Impact on Group financial report	Application date for Group *
AASB 2007-3	Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038]	Amending standard issued as a consequence of AASB 8 *Operating Segments*.	1 January 2009	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. However the standard may have an impact on the Group's segment disclosures the extent of which is yet to be determined.	1 July 2009
AASB 2007-8	Amendments to Australian Accounting Standards arising from AASB 101	Amending standards issued as a consequence of revisions to AASB 101 *Presentations of Financial Statements.*	1 January 2009	The amendments are expected to only affect the presentation of the Group's financial report and will not have a direct impact on the measurement and recognition of amounts under the current AASB 101. The Group has not determined at this stage whether to present the new statement of comprehensive income as a single or two statements.	1 July 2009
AASB 2008-1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations [AASB 2]	The amendments to AASB 2 requires instances where a failure to satisfy a non-vesting condition that is within the control of either the entity or the counterparty to be accounted for as a cancellation.	1 January 2009	The Group does not have share-based payments with non-vesting conditions and as such, is not expected to impact the Group's financial report.	1 July 2009
AASB 2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127	Amending standard issued as a consequence of revisions to AASB 3 and AASB 127.	1 July 2009	Refer to AASB 3 (Revised) and AASB 127 (Revised) below.	1 July 2009

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) New accounting standards and interpretations (continued)

Reference	Title	Summary	Application date of standard *	Impact on Group financial report	Application date for Group *
AASB 2008-5 and 2008-6	Improvements to IFRSs	The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs. The IASB has separated the amendments into two parts: Part 1 deals with changes the IASB identified resulting in accounting changes; Part II deals with either terminology or editorial amendments that the IASB believes will have minimal impact.	1 January 2009 except for amendments to IFRS 5, which are effective from 1 July 2009	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2009
AASB 2008-7	Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	The main amendments of relevance to Australian entities are those made to IAS 27 deleting the 'cost method' and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognised in profit or loss in an entity's separate financial statements (i.e. parent company accounts). The distinction between pre- and post-acquisition profits is no longer required. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment. AASB 127 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary (that is, share of equity) rather than its fair value.	1 January 2009	Recognising all dividends received from subsidiaries, jointly controlled entities and associates as income will likely give rise to greater income being recognised by the parent entity after adoption of these amendments. In addition, if the Group enters into any group reorganisation establishing new parent entities, an assessment will need to be made to determine if the reorganisation meets the conditions imposed to be effectively accounted for on a 'carry-over basis' rather than at fair value.	1 July 2009

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) New accounting standards and interpretations (continued)

Reference	Title	Summary	Application date of standard *	Impact on Group financial report	Application date for Group *
AASB 3 (revised)	Business Combinations	The revised standard introduces a number of changes in accounting for business combinations that will impact the amount of goodwill recognised, the results in the period that an acquisition occurs, and future revenues reported.	1 July 2009	It is not currently known whether this standard will have an impact on the Group's financial report.	1 July 2009
AASB 8	Operating Segments	New standard replacing AASB 114 *Segment Reporting*, which adopts a management approach to segment reporting.	1 January 2009	Refer to AASB 2007-3 above.	1 July 2009
AASB 101 (revised)	Presentation of Financial Statements	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	1 January 2009	Refer to AASB 2007-8 above.	1 July 2009
AASB 127 (revised)	Consolidated and Separate Financial Statements	The revised standard allows a change in the ownership interest of a subsidiary (that does not result in loss of control) to be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss.	1 July 2009	If the Group changes its ownership interest in existing subsidiaries in the future, the change will be accounted for as an equity transaction. This will have no impact on goodwill, nor will it give rise to a gain or loss in the Group's income statement.	1 July 2009

* designates the beginning of the applicable annual reporting period unless otherwise stated.

Adoption of new accounting standard

The Group has adopted AASB 7 *Financial Instruments: Disclosures* and all consequential amendments which became applicable on 1 July 2007. The adoption of this standard has only affected the disclosure in these financial statements. There has been no affect on profit or loss or the financial position of the entity.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Circadian Technologies Limited and its subsidiaries (as outlined in note 26) as at 30 June each year (the Group). Interests in associates are equity accounted and are not part of the consolidated Group (see note (j) below).

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits over their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

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 obtained by 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 net profit/loss after and net assets in CancerProbe Pty Ltd and Vegenics Limited not held by the Group and are presented separately from Parent in the income statement and within equity in the consolidated balance sheet.

(d) Cash and cash equivalents – refer note 11

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

(e) Current receivables – refer note 12

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.

Collectibility of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that the group will not be able to collect the debt.

(f) Investments and other financial assets (except listed options) – refer notes 14 and 26

Investments and 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 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Investments and other financial assets (except listed options) (continued)

Recognition and Derecognition
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. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or been transferred.

(i) Available-for-sale investments – note 14
Available-for-sale investments comprise the Group's non-current investments in listed companies. After initial recognition, available-for-sale investments 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 values 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.

(ii) Loans and receivables – note 26
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method and 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. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired.

Non-current receivables comprise loans receivable from subsidiaries which are not interest bearing. The parent has agreed that the loans with its subsidiaries 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.

(g) Listed options

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.

(h) Impairment of financial assets

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

(i) Available-for-sale investments – note 14
If there is objective evidence (i.e. significant or prolonged decline in quoted market bid prices) that an available-for-sale investment 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 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Impairment of financial assets (continued)

(ii) Financial assets carried at amortised cost
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 or 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.

(i) 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.

(j) Investments in associates – refer note 15

The Group's investments in its associates are 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 are 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 recoverable amount. Where the investment in associate is a listed investment, the recoverable amount is the quoted market bid price for that asset at balance date. The amount of impairment loss is the difference between the recoverable amount and carrying value.

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Investments in associates (continued)

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in equity and reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the relevant parent entity's income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables and loans, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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.

(k) Interest in a jointly controlled operation – refer note 25

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.

(l) Plant and equipment – refer note 16

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.

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

(m) Leases – refer note 8

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. Operating 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 2008 and 2007 financial years.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Impairment of non-financial assets other than goodwill – refer note 15

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For the policy relating to impairment re investments in associates, see note 2(j) above.

Circadian Technologies Limited conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

(o) Goodwill – refer note 17

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.

(p) Intangible assets

Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

(q) Intellectual property costs – refer note 8(a)

Amounts incurred for rights to or acquisition of intellectual property are expensed in the year in which they are incurred to the extent that such intellectual property is used for research and development activities.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Research and development costs – refer note 25

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.

(s) Payables – refer note 18

Payables are carried at amortised cost and due to their short term nature they are not discounted. They 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. The amounts are unsecured and are usually paid within 30 days of recognition.

(t) Loans and borrowings – refer note 26

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.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Parent's current payables include loans from subsidiaries which are not interest bearing. The relevant subsidiaries have agreed that the loans to the parent will not be recalled for a period of 12 months from the date the directors adopt the annual financial statements of the parent.

Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(u) Employee benefits – refer notes 19 and 20

(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. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rate paid or payable.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Employee benefits (continued)

(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. 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.

(v) Share-based payment transactions – refer note 28

Equity settled transactions:

The Group provides benefits to employees (including key management personnel) 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 plans in place to provide these benefits:

(i) the Employee Share Option Plan, which provides benefits to employees; and
(ii) the Performance Rights Plan, which provides benefits to certain key management personnel.

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, the Monte Carlo simulation or Hull model, as appropriate, are used for options issued.

In valuing transactions settled by way of issue of options, no account is taken of any performance (or vesting) 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 (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent report date until vesting, the cumulative charge to the income statement is the product of:

(i) the grant date fair value of the award;
(ii) the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period; and
(iii) the expired portion of the vesting period.

The charge to the income statement for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding credit to equity.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are met.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Share-based payment transactions (continued)

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. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share. There is however no dilutive effect when there is a loss per share.

(w) Contributed equity – refer note 21

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.

(x) Revenue recognition – refer note 6

Revenue is recognised and measured at the fair value of the consideration received or receivable 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 revenue
Almost all of the Group's interest revenue is earned on short-term bank deposits and as such interest revenue is recognised when the Group's right to receive the payment is established.

(ii) Royalty fee and licence fee revenue
Royalty fee and licence fee revenue is recognised when earned.

(iii) Dividends
Revenue is recognised when the Group's right to receive the payment is established.

(y) Income tax – refer note 9

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 based on the current period's taxable income. 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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Income tax (continued)

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

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

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

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

Tax consolidation legislation
Circadian Technologies Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2003.

The head entity, Circadian Technologies Limited, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. 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.

In addition to its own current and deferred tax amounts, Circadian Technologies Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Income tax (continued)

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.

(z) 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 is classified as part of operating cash flows.

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

(aa) 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. They are not credited directly to shareholders equity. All grants during the years ended 30 June 2008 and 30 June 2007 relate to expense items.

(ab) Earnings per share – refer note 10

Basic earnings per share is calculated as net profit or loss attributable to members of the parent divided by the weighted average numbers of ordinary shares. Diluted earnings per share is calculated as net profit attributable to members of the parent, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares. If there is a net loss there is no dilutive effect on earnings per share.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial assets comprise cash, short-term deposits and financial investments. The Parent's principal financial assets comprise cash, short-term deposits and intercompany receivables from wholly owned subsidiaries.

The Group (including the Parent) manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Group's financial risk management practices. The objective is to support the delivery of the Group's financial targets whilst protecting future financial security.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 interest rate risk, foreign currency risk, equity securities price risk and liquidity risk.

The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rates and foreign exchange rates. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

The Board reviews and agrees policies for managing each of these risks as summarised below.

Risk Exposures and Responses

Interest rate risk

The Group's (including the Parent) exposure to market interest rates relates primarily to the short-term deposits. The deposits are held with one of Australia's largest banks.

The objective of managing interest rate risk is to minimise the Group's exposure to fluctuations in interest rates that might impact its interest revenue and cash flow. To manage interest rate risk, the Group invests the majority of its cash in short-term deposits for varying periods of between 30 days and 90 days, depending on the short and long-term cash requirements of the Group which is determined based on the Group's cash flow forecast. This consideration also takes into account the costs associated with breaking a term deposit should early access to cash and cash equivalents be required. Cash is not locked into long-term deposits at fixed rates so as to mitigate the risk of earning interest below the current floating rate.

The Group does not have any borrowings.

The following sensitivity analysis (an annual effect) is based on the interest rate risk exposures in existence at the balance sheet date.

At 30 June 2008, if interest rates had moved, as illustrated in the table below, with all variables held constant, post tax profit and equity would have been affected as follows:

Judgements of reasonably possible movements:	Post Tax (Loss)/Profit Higher/(Lower)		Equity Higher/(Lower)	
	2008 $	2007 $	2008 $	2007 $
Consolidated				
+0.50% (50 basis points)	(161,758)	168,677	-	-
- 0.75% (75 basis points)	242,637	(253,015)	-	-
Parent				
+0.50% (50 basis points)	116,436	107,727	-	-
- 0.75% (75 basis points)	(174,653)	(161,591)	-	-

The possible movements between years are due to the Group's lower cash balance at 30 June 2008 compared to 30 June 2007. This is partially offset by higher interest rates across the financial year ended 30 June 2008 compared to the financial year ended 30 June 2007 of approximately 1.3%.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk Exposures and Responses (continued)

Price risk

The Group's investment in listed shares is exposed to equity securities price risk and as such their fair values are exposed to fluctuations as a result of changes in market prices.

Equity price risk is the risk that the fair value of equities will decrease as a result of share price movements. The Group's equity investments are publicly traded on the ASX and are designated and accounted for as "available-for-sale" financial assets (except for those which are recognised as associates).

The investments in listed shares are not held for short-term trading. Their values are reviewed regularly by management and the board. The strategy for realising any part of these investments is determined based on the liquidity of the respective stocks, potential off-market acquirers and likely developments in their values based on publicly available information.

At 30 June 2008, had the share price moved, as illustrated below, with all other variables held constant, post tax (loss)/profit and equity would have been affected as follows:

Judgements of reasonably possible movements:	Impact on loss after tax 2008 $	Impact on equity after tax 2008 $	Impact on profit after tax 2007 $	Impact on equity after tax 2007 $
Change in variables				
10% increase in listed share price	-	274,128	-	1,128,295
10% decrease in listed share price	-	(274,128)	-	(1,128,295)

Investments in listed entities have decreased during the current year due to the decrease in the market value of the investments as well as the disposal of the Group's holding in Metabolic Pharmaceuticals Limited in May 2008 and the sale of shares in Avexa Limited during the year – see note 6(b) for further details regarding the sale of these shares.

The parent has no equity price risk.

Foreign currency risk

During the year, the Group's exposure to foreign currency risk was minimal. As a result of services predominantly provided by non-related entities in the United States, part of the Group's payables are affected by movements in the US$/A$ exchange rate.

The Group does not enter into any hedging transactions.

At 30 June 2008, the Group had the following exposure to US$ foreign currency:

	Consolidated		Parent	
	2008 $	2007 $	2008 $	2007 $
Financial Assets				
Receivables	36,516	35,439	-	-
Financial Liabilities				
Payables	670,235	1,549,865	-	-
Net exposure	(633,719)	(1,514,426)	-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk Exposures and Responses (continued)

The following sensitivity is based on the foreign currency risk exposures in existence at the balance sheet date:

At 30 June 2008, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgements of reasonably possible movements:	Post Tax (Loss)/Profit Higher/(Lower)		Equity Higher/(Lower)	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
Consolidated				
AUD/USD +10%	(40,328)	96,373	-	-
AUD/USD -5%	23,348	(55,795)	-	-

The reasonably possible movements at 30 June 2007 are higher than at 30 June 2008 due to the higher net exposure to the US dollar.

Management believe the balance date risk exposures are representative of the risk exposure inherent in the financial instruments.

The parent has no foreign currency risk.

Credit risk

Credit risk is associated with those financial assets of the Group which comprise cash and cash equivalents and listed investments. 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 as the Group transacts with a reputable recognised third party (the Commonwealth Bank of Australia). Due to this, there is no requirement for collateral. The Parent has intercompany receivables from its wholly owned subsidiaries which are considered to be minimal credit risk.

Liquidity risk

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

Fair value

The methods for estimating fair value are outlined in the relevant notes to the financial statements.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In applying the Group's accounting policies, management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(i) Significant accounting judgements

Capitalised development costs
Development costs are only capitalised by the Group when it can be demonstrated that the technical feasibility of completing the intangible asset is valid so that the asset will be available for use or sale.

Taxation
The Group's accounting policy for taxation requires management's judgements as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxation profits.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future operating costs, capital expenditure and the possible timing of realising capital gains taxes/losses. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

(ii) Significant accounting estimates and assumptions

Classification of and valuation of investments
The Group has decided to classify investments in listed securities as 'available-for-sale' investments and movements in fair value are recognised directly in equity. The fair value of listed shares has been determined by reference to published price quotations in an active market.

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 models and assumptions as described in note 28. The accounting estimates and assumptions relating to equity settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

5. 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 Group is a biologics drug developer building on its significant intellectual property portfolio around Vascular Endothelial Growth Factor (VEGF) C and D (angiogenic molecules). The Group is focussed primarily on developing treatments for cancer as well as for other high unmet medical need disease indications.

The objective is to generate value by undertaking pre-clinical and early human clinical development and partnering with pharmaceutical companies the further development of major therapeutic indications while retaining rights to selected niche/orphan indications.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Parent	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
6. REVENUE				
(a) Finance Revenue				
Interest from:				
- Bank	3,236,619	2,015,650	2,213,563	1,473,421
- Related party - associated company	28,079	27,249	28,079	27,249
- Related party – wholly owned subsidiaries	-	-	278,484	194,057
- Other unrelated persons	50	20	-	-
	3,264,748	2,042,919	2,520,126	1,694,727
(b) Investment Income				
Net gain on sale of investments (i)	4,508,091	27,679,172	-	-
(c) Dividends				-
Unfranked – wholly owned subsidiaries	-	-	5,400,000	10,200,000
(d) Other Revenue				
Management fee (note 26(b)(iii))	-	-	900,000	300,000
Royalty and licence fees	359,918	141,242	-	-
Other revenue items	15,000	22,554	15,000	22,554
	374,918	163,796	915,000	322,554
Total Revenue	8,147,757	29,885,887	8,835,126	12,217,281

(i) The net gain on sale of investments of $4,508,091 (2007: $27,679,172) comprises the following:

Investment in Metabolic Pharmaceuticals Ltd:				
Net proceeds from sale of shares	1,728,610	8,285,760	-	-
Cost of shares sold	(10,000)	-	-	-
Net gain on sale of shares	1,718,610	8,285,760	-	-

30 June 2008:
The sale relates to the remaining holding in Metabolic Pharmaceuticals Limited of 36,012,701 ordinary shares. The shares were sold on 12 May 2008.

30 June 2007:
The sale relates to 12,000,000 ordinary shares in Metabolic Pharmaceuticals Limited, sold on 29 November 2006. The Group retained 36,012,701 shares in Metabolic after the sale of the shares, which were subsequently sold in May 2008.

Investment in Avexa Limited:				
Net proceeds from sale of shares	3,743,581	13,880,407	-	-
Original cost of shares sold	(2,879,878)	(7,521,752)	-	-
Gain on sale of shares	863,703	6,358,655	-	-
Recovery of impairment losses recognised prior to 1.7.05	1,925,778	410,910	-	-
Total	2,789,481	6,769,565	-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

6. REVENUE (continued)

(a) Finance Revenue (continued)

30 June 2008:
The sale relates to 6,580,000 ordinary shares in Avexa Limited, sold during the period from 13 November 2007 to 12 June 2008. The Group retains 7,087,914 shares in Avexa after the sale of the shares.

All the shares sold during the current year relate to those shares which recognised an impairment loss in the 30 June 2005 year (see below). As such, the recovery of losses on the parcel of shares sold during the year amounted to $1,925,778. Also see note 14.

30 June 2007:
The Group sold 22,489,836 ordinary shares in Avexa Limited from 24 January 2007 to 25 June 2007. The Group retained 13,667,914 shares in Avexa after the sale of the shares. Total impairment losses of $4,411,119 at 30 June 2005 relating to 19,132,292 Avexa shares were recognised through profit or loss. Of the 22,489,836 shares sold during the year, 5,464,378 shares are from the parcel which recognised the impairment loss in the 30 June 2005 year. As such, the recovery of impairment losses of $410,910 relates to this parcel of shares. Also see note 14.

	Consolidated		Parent	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
Investment in Zenyth Therapeutics Limited:				
Gross cash proceeds from disposal of investment	-	23,176,958	-	-
Value of in-specie distribution of Avexa shares	-	1,176,691	-	-
	-	24,353,649	-	-
Cost of disposed investment	-	(16,804,666)	-	-
Gain on disposal of investment	-	7,548,983	-	-
Recovery of impairment losses recognised prior to 1.7.05	-	5,074,864	-	-
Total	-	12,623,847	-	-

30 June 2007:
In November 2006, the Supreme Court of Victoria approved the scheme of arrangement between Zenyth Therapeutics Limited (Zenyth) and its shareholders under which all Zenyth shares were transferred to CSL Limited (CSL) in consideration of CSL paying Zenyth shareholders 82 cents per Zenyth share plus an in-specie distribution of Avexa Limited (Avexa) shares owned by Zenyth (1 Avexa share for every 6 Zenyth shares held). This resulted in the Group receiving $23,176,958 cash (representing the Group's holding of 28,264,583 shares @ 82 cents per share) plus an in-specie distribution of 4,706,763 Avexa shares at a value of $1,176,691 (the Avexa share price on the effective day of distribution of those shares was 25 cents).

The recovery of impairment losses recognised prior to 1 July 2005 of $5,074,864 reflect the difference between the market value of Circadian's holding in Zenyth at 30 June 2005 and the cost of the Zenyth holding at 30 June 2005 (whereby the cost exceeded the market value).

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Parent	
	2008 $	2007 $	2008 $	2007 $
7. OTHER INCOME				
Reversal of impairment of receivable from subsidiary	-	-	-	4,110,782
Distributions from subsidiaries (note 9(g))	-	-	258,596	513,091
Government grant income	6,020	153,888	-	-
Net foreign exchange gains	145,532	236,619	-	15,932
	151,552	390,507	258,596	4,639,805

8. EXPENSES

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
(a) Intellectual property costs	113,533	7,899,850	-	-

Intellectual property costs of $7,899,850 in the prior year comprises the following:

- an amount of $4 million relating to a patent portfolio in accordance with an agreement between Vegenics Limited (Circadian's subsidiary), the Ludwig Institute for Cancer Research (LICR) and Licentia Limited (Licentia). As the intellectual property provided under this agreement is being used for research and development activities, in accordance with Vegenics' company policy, the costs for this intellectual property have been expensed in profit or loss. Upon Vegenics completing in excess of a $16 million capital raising on 2 April 2007, the intellectual property under the agreement between Vegenics, LICR and Licentia was assigned to Vegenics as were the licenses between LICR and its licensees of which Vegenics now receives/earns milestone income.

- an amount of $2,631,925 relating to an agreement with CoGenesys Inc which provides Vegenics with rights to intellectual property in the field of VEGF-C (vascular endothelial growth factors C), and complements the Vegenics patent portfolio covering VEGF-C and VEGF-D and antagonists to these molecules, developed by LICR and Licentia.

- an amount of $1,267,925 paid to CoGenesys Inc in accordance with the agreement with CoGenesys relating to the acquisition of certain rights to Cambridge Antibody Technologies plc human monoclonal antibodies that target VEGF-C.

The current year costs of $113,533 relate to an upfront license fee paid to Human Genome Sciences in accordance with the license agreement which provides Vegenics with certain rights to intellectual property relating to VEGF-2 (VEGF-C) gene therapy. Annual license fees will be payable in respect to this agreement.

(b) Impairment losses

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Listed options	-	39,851	-	-
Other listed financial asset	6,645	347	-	-
Loan to associate (note 15(b))	40,000	-	40,000	-
	46,645	39,504	40,000	-

(c) Finance costs

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Interest expense – subsidiaries (note 26(b))	-	-	324,976	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

8. EXPENSES (continued)

	Consolidated		Parent	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
(d) Other expenses included in the Income Statement				
Included in occupancy expenses:				
- Operating lease rentals	96,601	87,846	96,901	87,846
Included in administrative expenses:				
- Depreciation of:				
Equipment and furniture	30,642	24,219	29,383	24,167
Leasehold improvements	692	1,196	692	1,196
Total depreciation expense	31,334	25,415	30,075	25,363
- Employee benefits expense:				
Salaries and fees	1,638,173	1,779,027	1,510,188	1,779,027
Cash bonuses	199,250	187,500	179,250	187,500
Superannuation	174,885	187,974	161,566	187,974
Share-based payments expense (note 28)	113,318	646,207	113,318	646,207
Other employee benefits expense	134,883	187,401	122,527	187,401
Total employee benefits expense	2,260,509	2,988,109	2,086,849	2,988,109

9. INCOME TAX

(a) Income Tax Expense

The major components of income tax expense are:

	Consolidated 2008	Consolidated 2007	Parent 2008	Parent 2007
Income Statement				
Current income tax				
Current income tax (benefit)/charge	(307,447)	5,114,740	(32,375)	(332,614)
Adjustments in respect of tax losses of previous years	(16,073)	(56,855)	(478)	(60,520)
Deferred income tax				
Relating to origination and reversal of temporary differences (d)	1,492,770	664,861	132,386	517,547
Income tax expense reported in the income statement (c)	1,169,250	5,722,746	99,533	124,413

(b) Amounts charged or credited directly to equity

	Consolidated 2008	Consolidated 2007	Parent 2008	Parent 2007
Deferred income tax related to items charged (credited) directly to equity				
Net unrealised loss on listed investments	(3,524,279)	(2,535,399)	-	-
Income tax benefit reported in equity	(3,524,279)	(2,535,399)	-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

9. INCOME TAX (continued)

(c) Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate

A reconciliation between tax expense and the product of accounting (loss)/profit before income tax multiplied by the Group's applicable income tax rate is as follows:

	Consolidated		Parent	
	2008 $	2007 $	2008 $	2007 $
Accounting (loss)/profit before tax	(1,116,869)	12,018,453	4,249,598	11,608,693
At the parent entity's statutory income tax rate of 30% (2007: 30%)	(335,061)	3,605,536	1,274,879	3,482,608
Adjustments in respect of tax losses of previous years	(16,073)	(56,855)	(478)	(60,520)
Unrecognised unrealised & realised tax assets	1,826,952	3,536,153	12,000	-
Recognition of losses not recognised in prior years	(88,549)	(1,323,440)	-	-
(Increase)/decrease in deferred tax assets due to temporary differences	607,833	1,624,526	65,495	497,718
Increase/(decrease) in deferred tax liabilities due to temporary differences	213,669	67,203	54,893	19,828
Expenditure not allowable for income tax purposes	94,250	593,451	430,592	725,569
Income not assessable for income tax purposes	(53,862)	(39,203)	(1,737,848)	(4,540,790)
Research and development additional deductions allowable	(116,828)	(249,927)	-	-
Fair value adjustment on investment in listed options and other listed investment	-	11,851	-	-
Difference between tax gain and accounting gain on disposal of investments – non-assessable	(963,081)	(2,046,549)	-	-
Income tax expense reported in the income statement	1,169,250	5,722,746	99,533	124,413

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

9. INCOME TAX (continued)

(d) Recognised deferred tax assets and liabilities

Deferred income tax at 30 June relates to the following:

	Balance Sheet 2008 $	Balance Sheet 2007 $	Income Statement 2008 $	Income Statement 2007 $
CONSOLIDATED				
Deferred tax liabilities:				
Revaluations of listed investments to fair value (unrealised capital gains)	(295,921)	(3,820,201)	-	-
Deferred tax assets available for offset against future taxable income:				
Realised capital gains tax losses	-	-	-	(289,929)
Unrealised impairment losses on listed investments	-	1,200,063	-	1,200,063
Temporary difference for investment in associate	(283,177)	(109,773)	(173,404)	(47,376)
Interest receivable (future assessable income)	(69,562)	(29,295)	(40,267)	(19,828)
	(648,660)	(2,759,206)		
Deferred tax assets:				
De-recognition of tax asset due to fair value adjustment	-	-	(622,329)	-
Realised gains – reversal of prior period impairment losses	-	-	(577,733)	(1,522,459)
Realised tax losses	307,447	-	-	-
Employee provisions	35,976	133,678	(97,202)	12,544
Future allowable deductions	75,315	56,649	18,665	2,124
	418,738	190,327		
Deferred tax expense			(1,492,770)	(664,861)
PARENT				
Deferred tax liabilities:				
Temporary difference on intercompany loans to subsidiaries	(14,628)	-	(14,628)	-
Interest receivable (future assessable income)	(69,562)	(29,296)	(40,266)	(19,828)
	(84,190)	(29,296)		
Deferred tax assets:				
Deferred tax assets available for offset against future taxable income:				
Realised tax losses	307,447	-	-	-
Employee provisions	35,976	133,678	(97,702)	12,544
Future allowable deductions	72,536	52,326	20,210	43,407
Temporary difference on intercompany loans to subsidiaries	-	-	-	(717,166)
Unrealised loss on investment in associate from prior year	-	-	-	163,496
	415,959	186,004		
Deferred tax expense			(132,386)	(517,547)

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

9. INCOME TAX (continued)

(e) Unrecognised temporary differences

At 30 June 2008, there are no unrecognised temporary differences relating to deferred tax liabilities associated with the Group's investments in subsidiaries, associates or joint ventures, as the Group has no liability for additional taxation should unremitted earnings be remitted (2007: $Nil).

(f) Unrecognised tax losses

Vegenics Limited had income tax losses of $2,192,657 (2007: $1,064,072) (these amounts are tax effected at 30%) for which no deferred tax asset is recognised on the balance sheet and are available indefinitely for offset against future assessable income subject to continuing to meet relevant statutory tests. During the year Vegenics was 67% owned by Circadian and as such was not a member of Circadian's tax consolidated group.

(g) Tax consolidation

(i) Members of the tax consolidated group

Circadian Technologies Limited and its 100% owned subsidiaries have formed a tax consolidated group with effect 1 July 2003. Circadian Technologies Limited is the head entity of the tax consolidated group.

(ii) Tax effect accounting by members of the tax consolidated group

Measurement method adopted under UIG 1052 Tax Consolidation Accounting
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. For details with respect to this method, see accounting policy note 2(y).

Tax consolidation contributions/(distributions)
In preparing the accounts for Circadian Technologies Limited for the current year, the following amounts have been recognised as tax-consolidation contribution adjustments:

	Parent	
	2008 $	**2007 $**
Total increase/(reduction) to tax expense of Circadian Technologies Limited	-	-
Total increase/(reduction) to investments in subsidiaries	(32,071)	5,964,109
Total distributions from subsidiaries recognised in the income statement of Circadian Technologies Limited	258,596	513,091

(h) Franking credit balance

The franking account balance at the end of the financial year at 30% (2007: 30%) is $350,862 (2007: $11,438), which represents the amount of franking credits available for the subsequent financial year.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

10. EARNINGS PER SHARE

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

(a) Earnings used in calculating earnings per share

	Consolidated	
	2008 $	2007 $
Net (loss)/profit attributable to ordinary equity holders of the parent	(1,147,805)	11,203,382

(b) Weighted average number of shares

	Number of shares 2008	Number of shares 2007
Weighted average number of ordinary shares on issue for basic earnings per share	40,124,498	40,124,498
Effect of dilution:		
Share options	-	-
Performance rights	-	257,337
Weighted average number of ordinary shares adjusted for the effect of dilution	40,124,498	40,381,835

There have been no other transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of this financial report.

Share options are not dilutive as their respective exercise prices are in excess of the Company's share price at year end.

(c) Information on the classification of securities

Options and performance rights granted to employees (including key management personnel) as described in note 28 are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent they are dilutive.

	Consolidated		Parent	
	2008 $	2007 $	2008 $	2007 $
11. CURRENT ASSETS – CASH AND CASH EQUIVALENTS				
Cash at bank and in hand	1,006,626	2,243,383	617,324	1,529,151
Short-term deposits	45,210,000	45,950,000	32,650,000	29,250,000
	46,216,626	48,193,383	33,267,324	30,779,151

Cash at bank earns interest at floating rates based on daily bank deposit rates. The carrying amounts of cash and cash equivalents represent fair value.

Short term-deposits are with a major bank and are made for varying periods of between 30 days and 90 days, depending on the immediate cash requirements of the Group, and earn interest at a fixed rate for the respective short-term deposit periods. At year end the average rate was 7.57% (2007: 6.27%).

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Parent	
	2008 $	2007 $	2008 $	2007 $
12. CURRENT ASSETS - RECEIVABLES				
Interest receivable	278,274	142,646	231,875	97,651
Receivable – related party (i)	-	8,933	82,500	82,500
GST receivable (ii)	170,397	131,175	23,125	30,751
Other (ii)	88,252	30,358	-	-
Total current receivables	536,923	313,112	337,500	210,902

(i) *Parent:* A Management Services Agreement between Circadian and Vegenics Limited was signed in the prior year relating to the provision of management and related support services by Circadian. The agreement provides for a management fee of $82,500 (GST inclusive) payable monthly in arrears. The related party receivable is non-interest bearing and has repayment terms of 30 days. See note 26(b)(iii).

Consolidated: The prior year receivable is from a director related entity of Vegenics Limited, being the Ludwig Institute for Cancer Research, relating to patent costs paid on their behalf to a third party patent attorney.

(ii) These receivables are non-interest bearing, most of which have repayment terms of between 30 and 60 days.

(a) Fair value and credit risk

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.

The maximum exposure to credit risk is the fair value of receivables.

(b) Foreign exchange and interest rate risk

Details regarding foreign exchange and interest rate risk exposure are disclosed in note 3.

13. CURRENT ASSETS – OTHER FINANCIAL ASSETS

Listed Australian shares - at fair value	-	14,213	-	-

The listed shares (available-for-sale asset) had no fixed term and was readily saleable. These shares were sold during the current year.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$

14. NON-CURRENT ASSETS – FINANCIAL INVESTMENTS AND SUBSIDIARIES

Listed Australian shares - at fair value (a)	3,916,107	16,118,504	-	-
Unlisted subsidiaries (b) (note 26) – at cost	-	-	29,491,803	29,585,578
Total non-current investments	3,916,107	16,118,504	29,491,803	29,585,578

(a) Details of listed Australian shares

Listed Investments	Ownership Interest		Fair Value (i)		Cost of Investment	
	2008	2007	2008	2007	2008	2007
	%	%	$	$	$	$
Non-current investments:						
Metabolic Pharmaceuticals Ltd (ii)	-	12.0	-	4,501,588	-	10,000
Avexa Limited (iii)	1.8	3.4	2,126,374	8,610,786	3,102,178	5,982,056
Optiscan Imaging Ltd (iv)	7.0	6.2	1,789,733	3,006,130	771,131	371,131
			3,916,107	16,118,504	3,873,309	6,363,187
Associate:						
Antisense Therapeutics Ltd (v) (note 15)	18.7	19.3	7,269,642	3,595,894	3,114,766	2,864,766
Total listed investments			11,185,749	19,714,398	6,988,075	9,227,953

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) 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.

(ii) During the current year, the Group sold its remaining holding in Metabolic Pharmaceuticals Limited (i.e. 36,012,701 ordinary shares) for net proceeds of $1,728,610. The sale of the Metabolic shares resulted in a net profit of $1,718,610. See note 6(b)(i) for further details.

(iii) During the current year, the Group sold a total of 6,580,000 shares in Avexa Limited for total net proceeds (after brokerage fees) of $3,743,581. The sale of the Avexa shares resulted in a net profit of $863,703. See note 6(b)(i) for further details.

(iv) During the current year, the Group acquired an additional 1,739,130 shares in Optiscan Imaging Limited for a consideration of $400,000 through a capital raising by Optiscan in June 2008. In this capital raising, Optiscan issued a total of 13.04 million shares to Circadian and other third parties for a total consideration of $3 million.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

14. NON-CURRENT ASSETS – FINANCIAL INVESTMENTS AND SUBSIDIARIES (continued)

(a) Details of listed Australian shares (continued)

(v) During the current year, the Group acquired an additional 4,166,667 shares in Antisense Therapeutics Limited for a consideration of $250,000 through a capital raising by Antisense Therapeutics in April 2008. In this capital raising, Antisense Therapeutics issued a total of 37.5 million shares to Circadian and other third parties for a total consideration of $2.25 million.

On subscription of the shares, the Group also received 2,083,333 attaching options exercisable at 10 cents each expiring 30 September 2009.

The Group's total undiluted interest in Antisense Therapeutics, including its indirect interest in Antisense Therapeutics through its investment in Syngene Limited, amounted to 22.8% at year end, representing a market value of $8,837,751 (cost: $3,214,136).

(b) Details of investments in subsidiaries

Of the $29,491,803 in investments in subsidiaries, $21,500,000 relates to the investment in Vegenics Limited, which at 30 June 2008 is 67% owned by Circadian (see note 31 "Events after Balance Sheet Date" in respect to Circadian acquiring the minority interest's 33% share of Vegenics). See note 26 regarding details of other subsidiaries.

15. NON-CURRENT ASSETS – INVESTMENTS IN ASSOCIATES

(a) Investment details

	Ownership Interest %		Carrying Amount $	
Name and Principal Activities	**2008**	**2007**	**2008**	**2007**
Listed:				
Antisense Therapeutics Ltd – Gene directed therapeutics (i)	18.7	19.3	1,186,481	1,158,947
Unlisted:				
Syngene Limited – Gene diagnostics	42.4	42.4	1,174,677	596,668
			2,361,158	1,755,615

The Group's proportion of voting power held in each associate is the same as its ownership interest. The Group's investments in the associates are accounted for in accordance with the accounting policy described in note 2(j).

Syngene Limited is an unlisted public company whilst Antisense Therapeutics Limited is listed on the Australian Stock Exchange. The associates are both incorporated in Australia and have 30 June reporting dates.

(i) Prior to 1 January 2006, the investment in Antisense Therapeutics Limited was accounted for as an "available-for-sale" asset pursuant to AASB 139 *Financial Instruments: Recognition and Measurement.* As a result of the Group participating as the major investor in a capital raising by Antisense Therapeutics in February 2006 (thus increasing the Group's holding at the time from 20.4% to 22.13%), the board of directors of Circadian determined that it has "significant influence" over Antisense Therapeutics based on the definition in accounting standard AASB 128 *Investments in Associates,* and as such it was resolved at that time that the Group should equity account Antisense Therapeutics with effect from 1 January 2006.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

15. NON-CURRENT ASSETS – INVESTMENTS IN ASSOCIATES (continued)

(a) Investment details (continued)

Although the Group's direct interest in Antisense Therapeutics has been diluted to 18.7% at year end due to subsequent capital raisings by Antisense Therapeutics, including its indirect interest it has a 22.8% interest at year end. As such the Group has continued to equity account the results of Antisense Therapeutics.

(b) Impairment

There was an impairment loss of $40,000 in the current year relating to the write-down of the loan to Syngene Limited. This amount is included in the line item 'Impairment losses' in the Income Statement.

(c) Movements in the carrying amounts of the Group's investments in associates

	Consolidated	
	2008 $	**2007 $**
Antisense Therapeutics Limited:		
At 1 July	1,158,947	1,945,041
Acquisition of shares (note 14(a)(v))	250,000	-
Net gain on new share issue by associate (note 22(b)(iii))	144,849	202,476
Share of movement in equity reserve	50,979	-
Share of loss after income tax	(418,294)	(988,570)
At 30 June	1,186,481	1,158,947

Syngene Limited:		
At 1 July	596,668	438,746
Share of profit after income tax	45,313	12,640
Share of net unrealised gain on listed investment for the year (i)	532,696	145,282
At 30 June	1,174,677	596,668

(i) The Group's share of the net unrealised gain on listed investment represents Syngene's 9.53% investment in Antisense Therapeutics Limited. The movement in the fair value of this investment during the year is recognised in the net unrealised gains reserve account (see note 22(b)(iv)).

(d) Fair value of investment in listed associate

The fair value of the Group's investment in Antisense Therapeutics Limited is $7,269,642 (2007: $3,595,894). Also see note 14(a)(v).

(e) Share of associates' commitments – Equity accounting only

(i) An agreement exists between Syngene Limited and the Howard Florey Institute of Experimental Physiology and Medicine (Institute) whereby the Institute has granted an 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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

15. NON-CURRENT ASSETS – INVESTMENTS IN ASSOCIATES (continued)

(e) Share of associates' commitments – Equity accounting only (continued)

(ii) Antisense Therapeutics Limited has an expenditure commitment of $3,482,487 relating to research and development and is payable within one year. The Group's share of this expenditure commitment is $652,270 (2007: $692,962).

The lease expenditure commitment for Antisense Therapeutics amounts to $23,277 which is payable within one year. This commitment relates to the leasing of office premises. The lease is for a term of one year with a renewal option for a further one year. The Group's share of Antisense Therapeutics' lease expenditure commitment is $4,360 (2007: $4,353).

(f) Summarised financial information

The following table illustrates summarised financial information relating to the Group's associates.

	Consolidated	
	2008	**2007**
	$	**$**
Extract from the associates' balance sheets:		
Current assets	9,877,911	8,115,571
Non-current assets	3,713,816	1,922,288
	13,591,727	10,037,859
Current liabilities	3,459,317	2,008,167
Non-current liabilities	1,025,991	604,415
	4,485,308	2,612,582
Net assets	9,106,419	7,425,277
Share of associates' net assets	2,361,158	1,755,615
Extract from the associates' income statements:		
Revenue	7,115,265	807,077
Net loss	(2,029,966)	(4,806,138)
Share of the associates' profit or loss accounted for using the equity method:		
Loss before income tax	(152,255)	(1,038,193)
Income tax (expense)/benefit	(220,726)	62,263
Loss after income tax	(372,981)	(975,930)

(g) Contingent liabilities of associates

The associates have no contingent liabilities at year end.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$

16. NON-CURRENT ASSETS – PLANT AND EQUIPMENT

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Equipment and furniture at cost				
Opening balance	227,381	180,121	225,654	180,121
Additions	32,260	64,161	23,230	62,434
Disposals	(9,157)	(16,901)	(9,157)	(16,901)
Closing balance	250,484	227,381	239,727	225,654
Accumulated depreciation				
Opening balance	146,583	137,588	146,531	137,588
Depreciation for the year	30,642	24,219	29,383	24,167
Disposals	(6,069)	(15,224)	(6,069)	(15,224)
Closing balance	171,156	146,583	169,845	146,531
Net carrying amount	79,328	80,798	69,882	79,123
Leasehold improvements at cost				
Opening balance	73,697	73,697	73,697	73,697
Additions	-	-	-	-
Closing balance	73,697	73,697	73,697	73,697
Accumulated depreciation				
Opening balance	72,618	71,422	72,618	71,422
Depreciation for the year	692	1,196	692	1,196
Closing balance	73,310	72,618	73,310	72,618
Net carrying amount	387	1,079	387	1,079
Total plant and equipment, net	79,715	81,877	70,269	80,202

17. NON-CURRENT ASSETS – GOODWILL

Reconciliation of carrying amount at the beginning and end of the period:

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Gross carrying amount	-	226,165	-	-
Accumulated impairment of goodwill:				
Opening balance	-	(76,947)	-	-
Impairment of goodwill for the year	-	(149,218)	-	-
	-	(226,165)	-	-
Net carrying amount at 30 June	-	-	-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
18. CURRENT LIABILITIES - PAYABLES				
Creditors (unsecured) (i)	1,373,112	2,131,664	330,145	222,309
Income received in advance	251,699	41,297	-	-
Payable to shareholders (ii)	-	109,490	-	109,490
PAYG tax liability	40,423	49,886	31,553	49,886
	1,665,234	2,332,337	361,698	381,685

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

Included in the consolidated balance is an amount of $1,144,043 (2007: $1,784,931) being amounts payable by Vegenics Limited.

(ii) A capital return and two unfranked dividend payments were paid to shareholders totalling 65 cents per share during the 2005 financial year. The balance in the prior year of $109,490 represents amounts payable with respect to these distributions to shareholders with unknown addresses. During the current year, all unclaimed monies were paid over to the State Revenue Office.

(a) Fair value

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

(b) Interest rate, foreign exchange and liquidity risk

Information regarding interest rate, foreign exchange and liquidity risk exposure is set out in note 3.

19. CURRENT LIABILITIES - PROVISIONS

Annual Leave	72,675	128,401	61,305	128,401
Long service leave (note 20)	48,876	288,889	48,876	288,889
	121,551	417,290	110,181	417,290

20. NON-CURRENT LIABILITIES - PROVISIONS

Long service leave	9,739	28,643	9,739	28,643

Refer to note 2(u) for the relevant accounting policy and a discussion of the significant estimations and assumptions applied in the measurement of this provision.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Parent	
	2008 $	2007 $	2008 $	2007 $
21. CONTRIBUTED EQUITY				
(a) Ordinary shares				
Issued and fully paid at 30 June	33,167,977	33,167,977	33,167,977	33,167,977
	No.	**No.**	**No.**	**No.**
Ordinary shares on issue:				
Balance at 1 July and 30 June	40,124,498	40,124,498	40,124,498	40,124,498

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

Share options and performance rights:

The Company has two share-based payment schemes: the Employee Share Option Plan under which options to subscribe for the Company's shares have been granted to certain employees, and a Performance Rights Plan under which rights to subscribe for the Company's shares have been granted to certain executive officers (refer to note 28).

(b) Capital management

The Group is not subject to any externally imposed capital requirements.

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to provide benefits to shareholders and for other stakeholders. In order to maintain or achieve an appropriate capital structure, the Company may issue new shares or reduce its capital, subject to the provisions of the Company's constitution.

See note 31 for details regarding a new share issue post year-end.

	Consolidated		Parent	
	2008 $	2007 $	2008 $	2007 $
22. RETAINED EARNINGS AND RESERVES				
(a) Movements in retained earnings were as follows:				
Balance at 1 July	15,031,677	3,828,295	21,397,036	9,912,756
Net (loss)/profit for the year	(1,147,805)	11,203,382	4,150,065	11,484,280
Balance at 30 June	13,883,872	15,031,677	25,547,101	21,397,036
(b) 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)	1,007,683	811,855	-	-
Net unrealised gains reserve (iv)	2,849,426	10,430,747	-	-
Employee equity benefits reserve (v)	1,020,539	907,221	1,020,539	907,221
Equity reserve attributable to parent (vi)	(5,238,453)	(5,238,453)	-	-
Total reserves	373,621	7,645,796	1,754,965	1,641,647

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

22. RETAINED EARNINGS AND RESERVES (continued)

(b) Reserves (continued)

	Consolidated		Parent	
	2008 $	2007 $	2008 $	2007 $
(i) Movement in asset revaluation reserve:				
Opening and closing balance	734,407	734,407	734,407	734,407
(ii) Movement in option reserve:				
Opening and closing balance	19	19	19	19
(iii) Movement in contributed capital of associate reserve:				
Opening balance	811,855	609,379	-	-
Investment in associate (note 15):			-	
- Gain on new share issue by associate	144,849	202,476	-	-
- Share of movement in equity reserve	50,979	-		
- Tax effect	(58,748)	(60,743)	-	-
- Tax asset offset	58,748	60,743	-	-
Closing balance	1,007,683	811,855	-	-
(iv) Movement in net unrealised gains reserve:				
Opening balance	10,430,747	17,990,006	-	-
- Net (losses)/gains on non-current listed investments for the year	(7,120,592)	8,289,463	-	-
Tax effect on above net gains/(losses)	2,465,766	(2,902,887)	-	-
Share of associate's net unrealised gain/(loss)	532,696	145,282	-	-
Net (losses)/gains on non-current listed investments for the year after tax	(4,122,130)	5,531,858	-	-
- Realised gains on non-current listed investments transferred to the income statement	(4,517,705)	(16,974,851)	-	-
Tax effect on above realised gains	1,058,514	4,971,920	-	-
Net realised gains transferred to the income statement	(3,459,191)	(12,002,931)	-	-
- Realised gain after tax for the year on held for sale investment transferred to the income statement	-	(1,088,186)	-	-
Closing balance	2,849,426	10,430,747	-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

23. RETAINED EARNINGS AND RESERVES (continued)

(b) Reserves (continued)

	Consolidated		Parent	
	2008 $	2007 $	2008 $	2007 $
(v) Movement in employee equity benefits reserve:				
Opening balance	907,221	261,014	907,221	261,014
Share-based payments	113,318	646,207	113,318	646,207
Closing balance	1,020,539	907,221	1,020,539	907,221
(vi) Movement in equity reserve attributable to parent:				
Opening balance	(5,238,453)	-	-	-
Minority interest's change in share of net assets of Vegenics due to additional investments made by the parent	-	(5,238,453)	-	-
Closing balance	(5,238,453)	(5,238,453)	-	-

(vii) 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 28 for further details on the equity benefit plans.

Equity reserve attributable to parent
This reserve recognises the minority interest's share of the change in the net assets of Vegenics on new investments (capital injections) made by the parent in Vegenics, which are offset by the relevant effect of additional investments made by minority interests.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Parent	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
23. MINORITY INTERESTS				
Share of contributed equity	8,922,784	8,922,784	-	-
Share of accumulated losses	(4,940,841)	(3,802,527)	-	-
	3,981,943	5,120,257	-	-

The above balances include the minority interest (33%) in Vegenics Limited and the minority interest (40%) in CancerProbe Pty Ltd. The minority interest in Vegenics' share capital amounts to $8.64 million and the minority interest in that company's accumulated losses amounts to $4.69 million (this includes the minority interest's share of Vegenics' losses for the year of $1.14 million).

24. CASH FLOW STATEMENT RECONCILIATION

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

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Net profit/(loss)	(2,286,119)	6,295,707	4,150,065	11,484,280
Adjustments for:				
Depreciation	31,334	25,415	30,075	25,363
Loss on disposal of plant and equipment	-	977	-	977
Employee benefits expense	113,318	646,207	113,318	646,207
Impairment of goodwill	-	149,218	-	-
Share of associates' net losses	372,981	975,930	-	-
Interest income from subsidiaries	-	-	(278,484)	(194,057)
Distributions from subsidiaries	-	-	(258,596)	(513,091)
Reversal of impairment of receivable from subsidiary	-	-	-	(4,110,782)
Write-down of receivables from subsidiaries	-	-	1,487,797	1,553,672
Interest expense on loans from subsidiaries	-	-	324,976	-
Fair value adjustments of current financial assets	-	39,504	-	-
Write-down of loan to associate	40,000	-	40,000	-
Intellectual property costs – non-cash financing	-	4,000,000	-	-
Changes in assets and liabilities:				
(Increase)/decrease in financial investments and subsidiaries	327,605	13,634,376	-	(21,500,000)
(Increase)/decrease in prepayments	(131,681)	210,011	1,033	(829)
(Increase)/decrease in interest receivable	(135,628)	(111,087)	(134,224)	(66,424)
(Increase)/decrease in other receivables	(88,183)	(89,784)	7,626	(67,511)
(Decrease)/increase in payables	(556,902)	1,430,539	105,096	(261,631)
(Decrease)/increase in income tax payable	(355,497)	6,200,348	(355,497)	(393,134)
(Decrease)/increase in employee provisions	(314,643)	41,812	(326,013)	41,812
(Increase)/decrease in deferred tax assets	971,654	(544,804)	85,387	497,718
(Decrease)/increase in deferred tax liabilities	213,669	67,203	14,626	19,828
Net cash from/(used in) operating activities	(1,798,092)	32,971,572	5,007,185	(12,837,602)

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

24. CASH FLOW STATEMENT RECONCILIATION (continued)

	Consolidated		Parent	
	2008 $	2007 $	2008 $	2007 $
(b) Non-cash financing and investing activities				
Acquisition of intellectual property by means of a share issue (note 8(a))	-	4,000,000	-	-
Share-based payments (note 28)	113,318	646,207	113,318	646,207
	113,318	4,646,207	113,318	646,207

(c) Disclosure of investing activities

Refer to notes 14 and 26.

25. INTERESTS IN JOINT VENTURE OPERATIONS

Parties	Pharmaceutical Research and Development Project	Share of Project Income (a) 2008 %	Share of Project Income (a) 2007 %	Loss Contributed (b) 2008 $	Loss Contributed (b) 2007 $
Neuro Therapeutics Ltd and Monash University	Anti-Allergy Asthma Analgesics Compound	67.5 85.7	67.5 85.7	118,472	61,125
Neuro Therapeutics Ltd and University of Sydney	Memory Enhancement	60	60	202,026	225,915
Neuro Therapeutics Ltd and University of Melbourne	Alzheimer's Disease Research	100	100	113,319	241,649
Neuro Therapeutics Ltd and Howard Florey Institute	Paracetamol	50	50	178,633	109,321
Polychip Pharmaceuticals Pty Ltd and Monash University	Dicarba Analogues	50	50	221,906	171,922
Cancer Therapeutics Ltd and Monash University	Peptide-Based Cancer Vaccine	75	50	695,296	666,597
Other non joint venture research project costs				1,889,614	1,678,677
				3,419,266	3,155,206

(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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

25. INTERESTS IN JOINT VENTURE OPERATIONS (continued)

(c) Expenditure commitments relating to joint venture research projects are payable as follows (these amounts are included in the total commitments disclosed in note 29):

	Consolidated		Parent	
	2008 $	2007 $	2008 $	2007 $
Within one year	720,000	797,708	-	-
After one year but not more than five years	-	20,000	-	-
	720,000	817,708	-	-

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

(e) There were no impairment losses in the assets employed in the joint venture operations.

26. RELATED PARTY DISCLOSURES

(a) Subsidiaries

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

	Book value of parent entity investment and % equity interest			
	2008		2007	
Name of company	$	%	$	%
Circadian Pharmaceuticals (Aust) Pty Ltd	-	100	-	100
Precision Patchclamps (Int) Pty Ltd	-	100	-	100
Polychip Pharmaceuticals Pty Ltd	2,882,158	100	2,898,440	100
Fibre Optics (Aust) Pty Ltd	5,109,645	100	5,187,138	100
Cancer Therapeutics Limited	-	100	-	100
Neuro Therapeutics Limited	-	100	-	100
CancerProbe Pty Ltd	-	60	-	60
Vegenics Limited *	21,500,000	67	21,500,000	67
	29,491,803		29,585,578	

Circadian Technologies Limited is the ultimate parent entity.

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

* As announced on 14 August 2008, Circadian acquired an additional 33% interest in Vegenics from its cofounders of that company, the Ludwig Institute for Cancer Research Ltd and Licentia Limited. This increased Circadian's interest in Vegenics from 67% to 100%. See note 31 for further details.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

26. RELATED PARTY DISCLOSURES (continued)

(b) Transactions with related parties

Transactions and balances with related parties during the years ended 30 June 2007 and 2008 are as follows:

(i) Loans to subsidiaries of $175,398 (2007: $235,057) 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). Evidence of impairment of an investment in or a receivable from a subsidiary is when the net assets of the relevant subsidiary are lower than the relevant investment/receivable. Interest of $278,484 (2007: $194,057) was incurred by the subsidiaries for the year 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(f)).

There is a loan to an associated entity of $584,987 (2007: $544,987), of which $40,000 was written down in the current year and $544,987 was written down in the 2006 financial year to reflect its fair value of $nil at year end. The loan is repayable on demand but not later than 31 May 2009 and interest is payable by the associated entity at 5% p.a.

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

	2008 $	2007 $
Subsidiaries		
Cancer Therapeutics Limited ¶	175,398	235,057
Neuro Therapeutics Limited ¶	-	-
	175,398	235,057
Associated Entity		
Syngene Ltd (note 15)	-	-

¶ The amortised value of the amount payable by Cancer Therapeutics Limited is $2,791,590 (recoverable value $175,398) and the amortised value of the amount payable by Neuro Therapeutics Limited is $2,234,376 (recoverable value $nil). The amounts lent to these entities during the year were used for working capital purposes – predominantly the funding of research and development activities.

The respective net assets of the subsidiaries are taken into account to determine whether receivables from these companies are impaired.

(ii) Loans from subsidiaries of $2,763,636 (2007: $3,700,090) are non-interest bearing, unsecured and have no fixed terms of repayment of principal (repayment is not expected within the next year, however, as the parent funds the activities of its wholly owned subsidiaries, the loan from subsidiaries will be reduced by these amounts). Interest of $324,976 was incurred by the parent during the year (2007: $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(t).

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

26. RELATED PARTY DISCLOSURES (continued)

(b) Transactions with related parties (continued)

The amounts are owed to the following companies:

	2008 $	2007 $
Subsidiaries		
Precision Patchclamps (Int) Pty Ltd	67,558	67,558
Circadian Pharmaceuticals (Aust) Pty Ltd	88,251	88,251
Polychip Pharmaceuticals Pty Ltd #	1,130,200	2,190,957
Fibre Optics (Aust) Pty Ltd ^	1,477,627	1,353,324
	2,763,636	3,700,090

The amount owing to Polychip Pharmaceuticals Pty Ltd (Polychip) arose in the prior year due to the proceeds received by Circadian on behalf of Polychip on the sale of shares in Metabolic Pharmaceuticals Limited, part of which was used for working capital purposes and the payment of an unfranked dividend by Polychip to Circadian. Polychip sold the remaining holding in Metabolic Pharmaceuticals Limited during the current year, part of which was used for working capital purposes, the acquisition of shares in Antisense Therapeutics Limited and the payment of an unfranked dividend by Polychip to Circadian.

^ The amount owing to Fibre Optics (Aust) Pty Ltd (Fibre Optics) arose in the prior year due to the disposal of Fibre Optics' investment in Zenyth Therapeutics Limited and the sale of shares in Avexa Limited, part of which were used to fund the acquisition of ordinary shares in Avexa Limited and the payment of an unfranked dividend by Fibre Optics to Circadian. Fibre Optics sold further shares in Avexa Limited during the current year, part of which were used to fund the acquisition of ordinary shares in Optiscan Imaging Limited and the payment of an unfranked dividend by Fibre Optics to Circadian.

(iii) During the year, patent costs totalling $367,165 incurred by Vegenics Limited were reimbursed to the Ludwig Institute for Cancer Research (LICR) for third-party patent attorney costs incurred by LICR in respect of the patent families as detailed in the License Agreement between Vegenics, LICR and Licentia (the commercial arm of the University of Helsinki. Dr Jonathan Skipper and Dr Andrew Simpson, directors of Vegenics since 11 July 2006, are executive officers of LICR.

A Management Services Agreement was signed in March 2007 between Circadian and Vegenics relating to the provision of management and related support services by Circadian to Vegenics. The agreement provides for $75,000 plus GST per month payable in arrears and is effective from 1 March 2007 to 30 June 2008.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

27. KEY MANAGEMENT PERSONNEL

(a) Details of Key Management Personnel

(i) Directors

Dominique Fisher	Chairman (non-executive)
Robert Klupacs	Managing Director (appointed 1 March 2008)
John Stocker	Director (non-executive)
Donald Clarke	Director (non-executive)
Tina McMeckan	Director (non-executive) (appointed 19 January 2008)
James MacKenzie	Director (non-executive)
Leon Serry	Managing Director (retired 29 February 2008)
Graeme Kaufman	Executive Director (resigned 25 October 2007)

(ii) Executive

Natalie Korchev	Company Secretary & Chief Financial Officer

Since 30 June 2008 and before the date the financial report was authorised for issue, the following were changes to the key management personnel:

Carlo Montagner	Director (non-executive) (appointed 1 July 2008)
Jonathan Skipper	Director (non-executive) (appointed 14 August 2008)
James MacKenzie	Director (non-executive) (resigned 31 July 2008)

(b) Compensation of Key Management Personnel

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
Short-term employee benefits	1,557,631	1,822,763	1,557,631	1,822,763
Post-employment benefits	135,351	164,049	135,351	164,049
Long-term benefits	14,746	24,361	14,746	24,361
Termination benefits	46,359	-	46,359	-
Share-based payment	140,654	639,562	140,654	639,562
Total compensation	1,894,741	2,650,735	1,894,741	2,650,735

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

27. KEY MANAGEMENT PERSONNEL (continued)

(c) Option holdings of Key Management Personnel (Consolidated)

							Total at end of period	
		Balance at beginning of period 1 July	Granted as Remuneration	Options Exercised	Net Change Other	Balance at end of period 30 June	Exercisable (ie. vested) "out of the money"	Not exercisable* (i.e. not vested)
Executive Directors								
R. Klupacs	**2008**	**500,000**	**500,000**	**-**	**-**	**1,000,000**	**-**	**1,000,000**
	2007	-	500,000	-	-	500,000	-	500,000
L. Serry (i)	**2008**	**1,250,000**	**-**	**-**	**(1,250,000)**	**-**	**-**	**-**
	2007	500,000	750,000	-	-	1,250,000	500,000	750,000
G. Kaufman (ii)	**2008**	**750,000**	**-**	**-**	**(750,000)**	**-**	**-**	**-**
	2007	250,000	500,000	-	-	750,000	250,000	500,000
Other Executive								
N. Korchev	**2008**	**175,000**	**-**	**-**	**-**	**175,000**	**25,000**	**150,000**
	2007	25,000	150,000	-	-	175,000	25,000	150,000
Total	**2008**	**2,675,000**	**500,000**	**-**	**(2,000,000)**	**1,175,000**	**25,000**	**1,150,000**
	2007	775,000	1,900,000	-	-	2,675,000	775,000	1,900,000

* The options which were issued in the 2008 and 2007 financial years have not legally vested and vested options (which must achieve share price hurdles in order to vest) will only become exercisable in 2011.

(i) L. Serry retired on 29 February 2008 after 24 years of service. The options issued to L. Serry, although they have not legally vested, are deemed to be vested pursuant to AASB 2 *Share-Based Payments.*

(ii) G. Kaufman resigned on 25 October 2007 before reaching minimum tenure requirements to retain a pro-rata entitlement of options issued to him and before these options had vested.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

27. KEY MANAGEMENT PERSONNEL (continued)

(d) Performance rights held by Key Management Personnel (Consolidated)

		Balance at beginning of period 1 July	Granted as Remuneration	Rights Exercised	Net Change Other*	Balance at end of period 30 June	Total at end of period Exercisable (ie vested)	Not exercisable* (i.e. not vested)
Executive Directors								
R. Klupacs	**2008**	**60,575**	**-**	**-**	**(60,575)**	**-**	**-**	**-**
	2007	60,575	-	-	-	60,575	-	60,575
L. Serry	**2008**	**128,110**	**-**	**-**	**(128,110)**	**-**	**-**	**-**
	2007	128,110	-	-	-	128,110	-	128,110
G. Kaufman	**2008**	**68,652**	**-**	**-**	**(68,652)**	**-**	**-**	**-**
	2007	68,652	-	-	-	68,652	-	68,652
Total	**2008**	**257,337**	**-**	**-**	**(257,337)**	**-**	**-**	**-**
	2007	257,337	-	-	-	257,337	-	257,337

* All the performance rights as detailed in note 28 did not vest as at 30 June 2008 and as such have lapsed in the current year.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

27. KEY MANAGEMENT PERSONNEL (continued)

(e) Shareholdings of Key Management Personnel (Consolidated)

Ordinary shares held in Circadian Technologies Limited (number)

		Balance at beginning of period 1 July	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance at end of period 30 June
Directors						
R. Klupacs	**2008**	**3,500**	**-**	**-**	**54,715**	**58,215**
	2007	-	-	-	3,500	3,500
D. Fisher	**2008**	**17,500**	**-**	**-**	**50,000**	**67,500**
	2007	10,000	-	-	7,500	17,500
J. Stocker	**2008**	**282,334**	**-**	**-**	**-**	**282,334**
	2007	282,334	-	-	-	282,334
D. Clarke	**2008**	**60,000**	**-**	**-**	**20,000**	**80,000**
	2007	60,000	-	-	-	60,000
T. McMeckan (i)	**2008**	**-**	**-**	**-**	**20,000**	**20,000**
	2007	-	-	-	-	-
J. MacKenzie	**2008**	**-**	**-**	**-**	**-**	**-**
	2007	-	-	-	-	-
L. Serry (ii)	**2008**	**2,100,000**	**-**	**-**	**(2,100,000)**	**-**
	2007	2,100,000	-	-	-	2,100,000
G. Kaufman (iii)	**2008**	**28,500**	**-**	**-**	**(28,500)**	**-**
	2007	28,500	-	-	-	28,500
Executive						
N. Korchev	**2008**	**-**	**-**	**-**	**-**	**-**
	2007	-	-	-	-	-
Total	**2008**	**2,491,834**	**-**	**-**	**(1,983,785)**	**508,049**
	2007	2,480,834	-	-	11,000	2,491,834

(i) T. McMeckan was appointed to the Board on 19 January 2008.

(ii) L. Serry retired as the managing director of Circadian on 29 February 2008. On date of retirement, he held 2,100,000 shares in Circadian.

(iii) G. Kaufman resigned as an executive director of Circadian on 25 October 2007. On date of resignation, he held 28,500 shares in Circadian.

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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

27. KEY MANAGEMENT PERSONNEL (continued)

(f) Loans to Key Management Personnel (Consolidated)

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

(g) Other transactions and balances with Key Management Personnel and their related parties

Director Related Entity Transactions:

Purchases

(i) During the year legal fees, including miscellaneous expenses, totalling $35,990 (2007: $122,955) were incurred by the consolidated entity for services provided by the legal firm of Minter Ellison of which Don Clarke, a director of the Company, 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 18.7% shareholding, rented premises during the year from Castlegreen Pty Ltd, a company in which Leon Serry, Polychip's Managing Director until his retirement on 29 February 2008, is a director and major shareholder. The total amount of rent, rates and taxes paid by Antisense Therapeutics during the period from 1 July 2007 to 29 February 2008 was $64,410 (2007: $96,872) and was based on commercial rental rates.

Revenue

(i) During the year, secretarial fees totalling $15,000 (2007: $22,500) were paid by Traders Macquarie Pty Ltd to Circadian Technologies Limited. Leon Serry, the Managing Director of the consolidated entity until his retirement on 29 February 2008, is a director and major shareholder of Traders Macquarie Pty Ltd.

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

	2008 $	2007 $
Assets and Liabilities:		
Current assets	-	-
Non-current assets	-	-
Total assets	-	-
Current liabilities		
Payables	6,660	31,851
Non-current liabilities	-	-
Total liabilities	6,660	31,851
Revenues and expenses:		
Revenue	15,000	22,500
Total revenue	15,000	22,500
Administrative expenses (legal fees)	35,990	87,558
Other expenses (legal fees)	-	35,397
Total expenses	35,990	122,955

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

28. SHARE-BASED PAYMENT PLANS

(a) Recognised share-based payment expenses

The expense recognised for employee services received during the year is shown in the table below:

	Consolidated		Parent	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
Expense arising from equity-settled share-based payment transactions (note 8(d))	113,318	646,207	113,318	646,207

The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during 2008 and 2007.

(b) Types of share-based payment plans

Options

Share options are granted to executive directors and certain employees.

In valuing transactions settled by way of issue of options, no account is taken of any performance conditions, other than market conditions linked to the price of the shares of Circadian Technologies Limited. All options issued have market performance conditions so as to align shareholder return and reward for the Company's key management personnel.

Options issued in 2004

With respect to the options issued in the 2004 financial year, the exercise prices were 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.

These options had four vesting dates, for various proportions of the total issued options, during the life of the options and are fully vested. The options issued in 2004 were "well out of the money" at the grant date and as at 30 June 2008.

Options issued in 2007 and 2008

In January 2007, a Circadian Senior Management Option Plan (Option Plan) was implemented to offer options which are subject to performance hurdles. This replaced the Circadian Executive Performance Rights Plan. The options issued to employees (including senior executives) in 2007 and 2008 pursuant to this Option Plan were divided equally into three tranches.

The options in each tranche will vest on the satisfaction of the following performance conditions during the relevant option period (2007 options within 5 years of the grant date; 2008 options within approximately 4 years of grant date) (Performance Hurdles). The 2007 options issued have an exercise price of $1.50 and the 2008 options issued have an exercise price of $1.30 (Exercise Price).

- *Tranche 1* – a market price for a Circadian share (Share Price) achieves not less than 125% of the Exercise Price;
- *Tranche 2* – the Share Price achieves not less than 150% of the Exercise Price; and
- *Tranche 3* – the Share Price achieves not less than 175% of the Exercise Price.

The Share Price is to be calculated as the volume weighted average share price of Circadian shares traded on the ASX over a consecutive 15 day trading period.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

28. SHARE-BASED PAYMENT PLANS (continued)

(b) Types of share-based payment plans (continued)

Vested options may only be exercised at any time in the last 12 months of the relevant option period.

The Exercise Price is subject to any adjustment which is required under the ASX Listing Rules as a consequence of a capital reorganisation or a pro rata rights issue of shares which occurs after the grant of the options but prior to the exercise of the options.

The options issued in 2008 were to Robert Klupacs, pursuant to an Executive Contract dated 20 December 2007.

The Board has residual discretion to accelerate vesting (i.e. reduce or waive the Performance Hurdles) and exercise of options in the event of a takeover or merger or any other circumstance in accordance with the terms of the Option Plan.

Options in relation to which performance conditions have not been satisfied (i.e. that do not vest) will lapse and will not be able to be exercised, except in circumstances as described below.

Options which have not vested will lapse where an option holder ceases employment with Circadian other than on retirement, redundancy, death or total and permanent disablement, or unless as otherwise determined by the Board in its absolute discretion.

Where an option holder has ceased employment with Circadian as a result of resignation, retirement, redundancy, death or total and permanent disablement prior to the end of a performance period but not before the first anniversary of grant date, options (whether vested or not) may be retained by the option holder on a pro-rata basis (the pro-rata being calculated over the period from grant date).

Performance rights

A Performance Rights Plan (Plan) was established during the 2006 financial year to provide annual grants of performance rights to certain executives of the Group. The first (and only) grant of performance rights was made in November 2005 to the three most senior executives. No further annual grants have been made or will be made under this Plan as the Option Plan described above has replaced this plan (see "Options Issued in 2007 and 2008" above).

The Group used a relative Total Shareholder Return (TSR) as the performance hurdle in granting performance rights to its key management personnel. The objective of using the TSR based hurdle was to align comparative shareholder return and reward for the Company's key management personnel.

An assessment was performed shortly after 30 June 2008 to determine whether the performance hurdles were met for the performance rights granted in 2005 according to Circadian's TSR relative to a comparator group of companies over the three-year performance period ending on 30 June 2008.

The comparator group was the 50 ASX listed companies ranked both above and below Circadian by market capitalisation, excluding listed property trusts and similar entities at the time of grant. TSR measured the return provided to shareholders by share price appreciation plus reinvested dividends/entitlements over the performance period, expressed as a percentage of the investment.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

28. SHARE-BASED PAYMENT PLANS (continued)

(b) Types of share-based payment plans (continued)

In order for the performance rights to vest and to become exercisable, the TSR of the Company over the performance period had to be equal to the median of the comparator group of companies at which point 50% of the performance rights would vest. All performance rights would vest if Circadian's TSR over the performance period was equal to or greater than the TSR of the Company at the 75^{th} percentile of the comparator group ranked by their TSR performance.

Circadian's TSR fell short of the median of the comparator group for the three year period ended 30 June 2008. As such, the performance rights did not vest and have lapsed. The assessment was performed by the independent consulting firm which recommended these performance rights as a long-term incentive.

The value of the performance rights have been fully expensed up to 30 June 2008.

The following table illustrates the number of and movements in performance rights during the current year:

Date of Issue	**2/11/2005**
On issue at the beginning of the year	257,337
Granted during the year	-
Vested during the year	-
Expired during the year	257,337
Outstanding at the end of the year	-

(c) Summary of options granted

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

Date of Issue	**18/2/2008 (iii)**	**5/3/2007 (ii)**	**8/2/2007 (ii)**	**25/9/2003 (i)**
On issue at the beginning of the year	-	120,000	1,900,000	800,000
Granted during the year	500,000	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	(500,000)	(250,000)
Outstanding at the end of the year	500,000	120,000	1,400,000	550,000
Exercisable at the end of the year	-	-	-	550,000
Number of recipients	1	4	4	3
Exercise price	$1.30	$1.50	$1.50	(i)
Exercise period from	8/2/2011	9/3/2011	8/2/2011	25/9/2003
To (Expiration day)	8/2/2012	9/3/2012	8/2/2012	25/9/2008

(i) The exercise price on options issued are as follows:

1/3 options exercisable at $2.62 per share
1/3 options exercisable at $2.87 per share
1/3 options exercisable at $3.12 per share

(ii) Refer to note (b) above for a summary of the options granted.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

28. SHARE-BASED PAYMENT PLANS (continued)

(d) Option pricing models for options granted

The following assumptions were used to derive a value for the options granted using the Hull Model (for options issued in 2008), the Monte Carlo Simulation model (for options issued in 2007) and the Binomial model (for options issued in 2003) as at the grant date, taking into account the terms and conditions upon which the options were granted. The Hull Model is a barrier option model which is derived using a closed-form formula not dissimilar to the Black-Scholes formula.

Issue date of options	18/2/2008	5/3/2007	8/2/2007	25/9/2003
Dividend yield	0.00%	0.00%	0.00%	1.04%
Expected annual volatility	37.5%	37.5%	37.5%	45.00%
Risk-free interest rate (p.a.)	6.54%	5.79%	5.99%	5.41%
Expected life of option (years)	3.5	4.5	4.5	5
Fair value per option	24.64¢ – 27.62¢	41.01¢ – 43.34¢	67.45¢ – 68.56¢	68¢ – 78¢
Exercise price per option	$1.30	$1.50	$1.50	*$3.00 - $3.50
Share price at grant date	$1.025	$1.27	$1.61	$2.25
Model used	Hull Model	Monte Carlo	Monte Carlo	Binomial

* 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. The adjusted exercise price per option is detailed in (c)(i) above.

With respect to the options issued in 2003, the expected life of the options is assumed to be total years from grant date to expiration and for the options issued in 2007 and 2008, the effects of early exercise have been incorporated into the calculations by using an expected life for the option that is shorter than the contractual life. These are not necessarily indicative of exercise patterns that may occur in the future. In respect to the options granted in 2007, the expected volatility was determined using historic data over a three year period from February 2004 to February 2007. In respect to the options granted in 2008, the expected volatility was determined using historic data over a three year period from February 2005 to February 2008. The expected volatility for the options issued in 2003 is based on the 12 months of monthly observations prior to September 2003. The resulting expected volatility therefore reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

29. COMMITMENTS

(i) Operating lease commitments – Group as lessee

The Group has entered into a commercial lease for the office premises. An extension to the lease was signed during the current year providing for a further two years and allows for the tenancy to be terminated with six months notice. The following commitment as at 30 June 2008 assumes that the tenancy will be occupied for the full two year extension.

	Consolidated		Parent	
	2008 $	2007 $	2008 $	2007 $
Within one year	92,694	83,557	92,694	83,557
After one year but not more than five years	96,301	-	96,301	-
	188,995	83,557	188,995	83,557

(ii) Research projects and license commitments

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

Within one year	3,936,671	1,338,559	-	-
After one year but not more than five years	905,598	332,500	-	-
After more than five years	419,903	-		
	5,262,172	1,671,059	-	-

30. CONTINGENCIES

(i) Vegenics Limited, a subsidiary of Circadian, is a party to various research agreements with respect to which a commitment to pay is contingent on the achievement of research milestones. Assuming all milestones are achieved within the timeframes stipulated in the contracts, those which could become payable in less than one year total $228,732 (2007: $241,434) and those which could become payable in more than one year total $50,000 (2007: $300,000).

Further, under license/collaboration agreements with three third parties, payments are to be made only if certain research and clinical development milestones are achieved and royalties may become payable on any eventual sales of products developed under these agreements.

(ii) Remuneration contingent liability - refer to "Employment contracts" in the Remuneration Report of the Directors' Report with respect to payments in lieu of notice where either the Managing Director resigns or the Company terminates his employment.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

31. EVENTS AFTER THE BALANCE SHEET DATE

On 14 August 2008, Circadian announced that it had completed its acquisition of the Ludwig Institute for Cancer Research Ltd's (LICR) and Licentia Limited's (Licentia) combined 33 per cent interest in Vegenics. This increased Circadian's interest in Vegenics from 67% to 100%.

Consideration for the acquisition of LICR's and Licentia's combined interest in Vegenics is in two tranches:

- Tranche 1:
  - 5,117,430 Circadian shares were issued to LICR (2,589,635 shares) and Licentia (2,527,795 shares) on 14 August 2008. This equates to a combined interest of 11.3% after the share issue;
  - 50% of the shares will be escrowed for a period of 12 months from date of issue. The remaining 50% will be escrowed for 24 months; and
  - a cash payment of Euro 400,000 (A$680,272) was made to Licentia.
- Tranche 2:
  - A further 1,155,000 Circadian shares will be issued to LICR (532,455 shares) and Licentia (622,545 shares) on the earlier to occur of certain product development milestones or the second anniversary of the date of Circadian's acquisition of LICR's and Licentia's interests in Vegenics (i.e. 14 August 2010) (subject to shareholder approval, if required, under the ASX Limited Listing Rules).

LICR's and Licentia's nominee, Dr Jonathan Skipper (LICR's Executive Director for Intellectual Property and Licensing) has been appointed to the board of Circadian as part of this transaction.

	Consolidated		Parent	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
32. AUDITORS' REMUNERATION				
The auditor of Circadian Technologies Limited is Ernst & Young.				
Amounts received or due and receivable by Ernst & Young (Australia) for:				
• an audit or review of the financial report of the entity and any other entity in the consolidated group	91,537	92,968	64,040	60,780
• other services in relation to the entity and any other entity in the consolidated group				
- tax compliance	20,000	14,100	13,500	12,680
- other tax services	15,080	32,340	8,230	27,500
- assurance related	5,365	11,659	4,000	2,000
- special audits required by regulators	-	5,150	-	-
	131,982	156,217	89,770	102,960

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, and the remuneration report included in the directors' report of the Company and of the Group are in accordance with the *Corporations Act 2001*, including:

    (i) giving a true and fair view of the Company's and Group's financial position as at 30 June 2008 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 year ended 30 June 2008.

For and on behalf of the Board:

Robert Klupacs
Director

Dominique Fisher
Director

Melbourne
21 August 2008

ERNST & YOUNG

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8 Exhibition Street
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Independent auditor's report to the members of Circadian Technologies Limited

Report on the Financial Report

We have audited the accompanying financial report of Circadian Technologies Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2(a), the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have met the independence requirements of 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 financial report. 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.

Auditor's Opinion

In our opinion:

1. the financial report of Circadian Technologies Limited is in accordance with 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 2008 and of their performance for the year ended on that date; and

    ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 15 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Circadian Technologies Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

Ernst + Young

Ernst & Young

Lonergan

Joanne Lonergan
Partner
Melbourne
21 August 2008

OTHER INFORMATION

	Consolidated 2008	Consolidated 2007
NTA backing		
Net tangible asset backing per ordinary security	$1.28	$1.52
Ratios		
Consolidated net profit/(loss) from ordinary activities after tax attributable to members as a percentage of equity at the end of the year	(2.4)%	20.1%

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, 14 November 2008
Time:	3.00 pm
Approximate date the annual report will be available:	7 October 2008