

# Notice of Annual General Meeting and Explanatory Memorandum

Circadian Technologies Limited  
ACN 006 340 567

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Date: 11 November 2010  
Time: 10.00 am  
Location: Computershare Conference Centre  
Yarra Falls  
452 Johnston Street  
Abbotsford, Melbourne, Victoria

# Notice of Annual General Meeting

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Notice is given that the Annual General Meeting of the Shareholders of Circadian Technologies Limited (**Company**) will be held at Computershare Conference Centre, Yarra Falls, 452 Johnston Street, Abbotsford, Melbourne, Victoria on Thursday, 11 November 2010 at 10.00 am (**AGM**).

## Ordinary Business

### 1. Financial statements and reports

To receive and consider:

- (a) the financial report;
- (b) the directors' report; and
- (c) the auditor's report

of the Company for the year ended 30 June 2010.

### 2. Remuneration report (Resolution 1)

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

*'That the remuneration report as set out in the Annual Report for the financial year ended 30 June 2010 be adopted.'*

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

### 3. Re-election of Mr Carlo Montagner as a director (Resolution 2)

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

*'That Mr Carlo Montagner, a director retiring by rotation in accordance with clause 58 of the Company's constitution, and being eligible, be re-elected as a director of the Company.'*

### 4. Re-election of Mr Don Clarke as a director (Resolution 3)

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

*'That Mr Don Clarke, a director retiring by rotation in accordance with clause 58 of the Company's constitution, and being eligible, be re-elected as a director of the Company.'*

### 5. Approval of Circadian Technologies Limited Employee Conditional Rights Scheme (Resolution 4)

To consider and, if thought fit, to pass the following special resolution:

*'That, for the purpose of Exception 9 of Listing Rule 7.2 of the Listing Rules of the Australian Securities Exchange (**ASX Listing Rules**) and for all other purposes, approval be given for the introduction of the Scheme.'*

### 6. Grant of Conditional Rights to Mr Robert Klupacs (Resolution 5)

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

*'That, for the purposes of Listing Rule 10.14 of the Listing Rules, the Corporations Act 2001 (Cth) (**Corporations Act**) and for all other purposes, approval be given for the grant of 520,000 Conditional Rights to Mr Robert Klupacs under the Company's Employee Conditional Rights Scheme (**Scheme**), resolved to be granted by the Board in October 2010 and, upon exercise of*

*those conditional rights (**Rights**), the acquisition of 520,000 ordinary shares underlying those Rights, in accordance with the terms of the Scheme and the explanatory statement accompanying this notice of meeting.'*

7. **Approval of the Issue of Conditional Rights on Accelerated Event and Payment of Future Termination Benefit to Mr Robert Klupacs (Resolution 6)**

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

*'That for the purposes of sections 200B and 200E of the Corporations Act, approval be given for the Company to provide the benefits to Mr Robert Klupacs (details of which are set out in the notice of this meeting) arising from his participation in the Scheme and the receipt, vesting and exercise of Rights acquired under, or arising from, contractual arrangements with the Company in connection with any future termination of his employment or office.'*

8. **Other business**

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

By order of the Board

11 October 2010



Susan Madden  
Company Secretary

# Proxy Notes

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1. A Shareholder entitled to attend and vote at the meeting has a right to appoint a proxy.
2. The proxy need not be a Shareholder of the Company.
3. A Shareholder who is entitled to cast two or more votes may appoint up to two proxies and, in the case of such an appointment, may specify the proportion or number of votes each proxy is appointed to exercise.
4. If a Shareholder appoints two proxies and the appointment does not specify the proportion or number of the Shareholder's votes which each proxy may exercise, each proxy may exercise half of the votes.
5. The proxy form included in this Notice of AGM must be signed by the Shareholder or the Shareholder's attorney. Proxies given by corporations must be signed under the hand of a duly authorised officer or attorney.
6. To be valid, the form appointing the proxy and the power of attorney or other authority (if any) under which it is signed (or a certified copy of it) must be lodged with the Share Registry - Computershare Investor Services Pty Limited at Yarra Falls, 452 Johnston Street, Abbotsford, Victoria 3067, using the reply paid envelope supplied or by facsimile to 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia) as soon as possible and in any event not later than 48 hours prior to the time appointed for the AGM.
7. A proxy may decide whether to vote on any motion, except where the proxy is required by law or the Company's constitution to vote, or abstain from voting, in their capacity as proxy. If a proxy is directed how to vote on an item of business, the proxy may vote on that item only in accordance with that direction. If a proxy is not directed how to vote on an item of business, the proxy may vote as he or she thinks fit.
8. If a Shareholder appoints the chairperson of the meeting as the Shareholder's proxy and does not specify how the chairperson is to vote on an item of business, the chairperson will vote, as proxy for that Shareholder, in favour of the item on a poll.
9. Shareholders should refer to the Explanatory Memorandum, which accompanies and forms part of this Notice of Meeting, for information regarding voting restrictions.
10. For Intermediary Online subscribers only (custodians) please visit [www.intermediaryonline.com](http://www.intermediaryonline.com) to submit your voting intentions.

## Voting entitlements

In accordance with regulation 7.11.37 of the *Corporations Regulations 2001* (Cth) for the purposes of the meeting, persons holding shares at 7.00 pm (Melbourne time) on 9 November 2010 will be treated as Shareholders. This means that if you are not the registered holder of a relevant Share at that time you will not be entitled to attend and vote in respect of that Share at the AGM.

# Voting Exclusion Statements

## **Resolutions 4 and 5:**

In accordance with the Listing Rules, the Company will disregard any votes cast in respect of Resolution 4 and 5 by any Director or an associate of a Director. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or it is cast by a person chairing the AGM as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

## **Resolution 6:**

In accordance with the Corporations Act, a vote on Resolution 6 must not be cast (in any capacity) by or on behalf Mr Robert Klupacs and any of his associates. However, the Company need not disregard a vote if:

- (a) it is cast by a person as proxy appointed by writing that specifies how the proxy is to vote on the Resolution; and
- (b) it is not cast on behalf of Mr Robert Klupacs or an associate of his.

# Explanatory Memorandum

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## 1. Purpose of information

The purpose of this Explanatory Memorandum (which is included in and forms part of the Notice of AGM dated 11 October 2010) is to provide Shareholders with an explanation of the business of the meeting and of the resolutions to be proposed and considered at the AGM to be held on 11 November 2010, at 10.00 am at Computershare Conference Centre, Yarra Falls, 452 Johnston Street, Abbotsford, Melbourne, Victoria, and to assist Shareholders to determine how they wish to vote on each resolution.

## 2. Financial statements and reports

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

Shareholders have been provided with all relevant information concerning the Company's financial statements, directors' report and auditor's report in the Annual Report of the Company for the year ended 30 June 2010. A copy of the Annual Report has been forwarded to each Shareholder other than those Shareholders who have previously notified the Company that they elect not to receive the Annual Report, whether in paper form or electronically. Any Shareholder who had made this election and now wishes to receive a paper or electronic copy of the Annual Report should contact the Company's office by phone on +61 3 9826 0399 to arrange receipt. The Annual Report can also be viewed, printed and downloaded from the Company's website [www.circadian.com.au](http://www.circadian.com.au). A copy of the financial statements, the directors' report and the auditor's report will also be tabled at the meeting.

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

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

## 3. Remuneration report (Resolution 1)

The directors' report for the year ended 30 June 2010 contains a remuneration report, which sets out the policy for remuneration of the directors, the company secretary and senior managers.

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

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

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

The full remuneration report is included in the Company's 2010 Annual Report which is available on the Company's website [www.circadian.com.au](http://www.circadian.com.au).

## 4. Re-election of directors (Resolutions 2 and 3)

### 4.1 Introduction

Clause 58 of the Company's constitution requires that at each AGM one-third of the directors must retire from office, or if their number is not a multiple of three, then the number nearest to, but not exceeding one-third of the directors must retire from office. Therefore, two of the six directors must retire by rotation. Mr Carlo Montagner and Mr Don Clarke are the directors who have been longest in office. Therefore, Mr Carlo Montagner and Mr Don Clarke must retire by rotation at the Company's 2010 AGM and are eligible for re-election. Accordingly, they seek re-appointment as directors.

### 4.2 Biography of Mr Carlo Montagner

Carlo Montagner was appointed a non-executive director of the Company on 1 July 2008 and is a member of the Company's Product Development Review Committee and Remuneration Committee. He has a wealth of experience in heading global oncology businesses for chemotherapeutic products and has more than 16 years' experience in the pharmaceutical industry in the US, Europe, Japan and 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 a director of Abraxis Bioscience Australia Pty Ltd, 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 with ASX listed company Alchemia Limited, whose Board he joined in March 2008.

### 4.3 Biography of Mr Don Clarke

Don Clarke was appointed a non-executive director of the Company in September 2005. He is Chairman of the Remuneration Committee and a member of the Audit Committee. He has been a partner of the law firm Minter Ellison since 1988, having joined that firm in 1980. Mr Clarke has a broad commercial practice (involving predominantly ASX listed companies in the SME sector and larger private companies) and experience across a broad sector of industries. He is also a non-executive director and deputy chairman of the ASX listed company Webjet Limited (appointed January 2008), and a non-executive director of the ASX listed company Phosphagenics Limited.

## 5. Approval of Circadian Technologies Limited Employee Conditional Rights Scheme (Resolution 5)

### 5.1 Introduction

The Board is proposing to implement an employee conditional rights scheme to be known as the Circadian Technologies Limited Employee Conditional Rights Scheme (**Scheme**) under which present and future eligible employees (**Participants**), as a long term incentive, may be granted Rights.

## 5.2 Shareholder Approval

The purposes of the Scheme and of the issue of Rights are to provide a long term incentive to its staff, as part of a focus on transforming remuneration to link to the achievement of performance benchmarks, encourage direct involvement and interest in the performance of the Company, and enable the acquisition of a long term equity interest by its staff.

An eligible participant of the Scheme includes employees, executive and non-executive Directors and any individual whom the Board determines to be an eligible participant for the purposes of the Scheme.

## 5.3 ASX Listing Rule 7.1

Under Listing Rule 7.1, a listed company must not, without the approval of its ordinary shareholders, issue more than 15% of its equity securities in any 12 month period, unless an exception applies in ASX Listing Rule 7.2.

Exception 9 to ASX Listing Rule 7.2 provides that an issue of securities (eg the issue of the Rights under the Scheme) under an employee incentive plan (eg the Scheme) to Participants will be treated as an exception to Listing Rule 7.1 if, within 3 years before the due date of the grant of the securities, the shareholders of the listed company have approved the issue of the securities pursuant to the relevant employee incentive plan as an exception to Listing Rule 7.1. It is for the purpose of enabling the Company to exclude the issue of the Rights under the Scheme from the 15% limit in any 12 month period under Listing Rule 7.1 that Resolution 4 is proposed.

In that context, Shareholders should note that the Listing Rules do not require the Company to obtain Shareholder approval of the Scheme itself.

Up to 1,615,000 Rights have been reserved by the Company for issue under the Scheme to future Participants. The Board believes the number of Rights reserved for future Participants is appropriate considering the Company's need to attract further high quality staff. In the event the total number of Rights reserved under the Scheme is issued and all performance conditions are successfully achieved, the dilutory impact upon exercise of all Rights proposed under this Resolution is 3.5% of current ordinary share capital.

## 5.4 Summary of the Scheme Terms

(a) What is the Scheme?

The Scheme has been established for the purpose of offering Rights to Participants that require the Company to issue free Shares to them upon the satisfaction of certain conditions (**Milestones**). Exercise of the Rights is conditional on the Company achieving the following conditions:

<p style="text-align: center;"><b>Milestone</b></p>	<p style="text-align: center;"><b>Percentage of the total number of Rights that crystallise and are able to be exercised by the Participant on Milestone being satisfied</b></p>
<p><b>Milestone 1</b></p> <p>Either of the following events occur within 18 months of the date of the Scheme Booklet:</p> <ul style="list-style-type: none"> <li>• if the Board determines that a material commercial licensing, joint venture, partnering or similar agreement or arrangement is entered into or completed; or</li> <li>• annualised sales royalty income of the Company exceeds \$2 million.</li> </ul>	<p>33% of Rights</p>
<p><b>Milestone 2</b></p> <p>Any three of the following events occur within 36 months of the date of the Scheme Booklet:</p> <ul style="list-style-type: none"> <li>• if the Board determines that a material commercial licensing, joint venture, partnering or similar agreement or arrangement is entered into or completed;</li> <li>• the Company's Share price based on a 10 day VWAP at any time within 90 days of the date of the Scheme Booklet exceeds \$1.50;</li> <li>• completion of necessary studies to have enabled the VGX-200 or VGX-300 series of molecules to be designated "formal drug development candidates";</li> <li>• identification of a putative biomarker/clinical profile to enable patient selection into Phase 2 clinical trials; or</li> <li>• annualised sales royalty income of the Company exceeds \$5 million.</li> </ul>	<p>67% of Rights</p>
<p>Any three of the following events occur within 48 months of the date of the Scheme Booklet:</p> <ul style="list-style-type: none"> <li>• if the Board determines that a material commercial licensing, joint venture, partnering or similar agreement or arrangement is entered into or completed;</li> <li>• the Company's Share price based on a 10 day VWAP at any time within 90 days of the date of the Scheme Booklet exceeds \$1.75;</li> <li>• completion of necessary studies to have enabled the VGX-200 or VGX-300 series of molecules to be designated "formal drug development candidates";</li> </ul>	<p>100% of Rights</p>

<ul style="list-style-type: none"> <li>• identification of a putative biomarker/clinical profile to enable patient selection into Phase 2 clinical trials; or</li> <li>• annualised sales royalty income of the Company exceeds \$7.5 million.</li> </ul>	
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Notwithstanding the vesting timetable above, 100% of the Rights will crystallise and be able to be exercised if:

- (i) the 10 day VWAP of the Company's Shares is not less than \$1.75 at any time;
- (ii) in the event of a sale, merger or takeover, or other similar event as determined by the Board, provided that the sale, merger or takeover effective offer price per Company Share as determined by the Board exceeds:
  - o \$1.30/share, if within 12 months of the date of the Scheme Booklet;
  - o \$1.50/share, if within 24 months of the date of the Scheme Booklet;
  - o \$1.75/share, if within 36 months of the date of the Scheme Booklet; or
  - o \$2.00/share, if within 48 months of the date of the Scheme Booklet; or
- (iii) if all of the events for Milestone 3 occur within 48 months of the date of the Scheme Booklet.

For each Right, the Participant will be entitled to require that the Company issues them one free Share. On each Milestone being achieved by the Company, the Participant will be entitled to exercise up to the total percentage (as noted in the table above) of their Rights. On exercise of the Participant's Rights, the Company will issue Shares (at no cost) to the Scheme Trustee to be held by it on the Participant's behalf.

The Participant will not be required to make any payment for either the Rights or the Shares. There is no stamp duty or brokerage applicable to or arising from the issue of the Rights or Shares (on exercise of the Rights).

(b) Who is eligible to participate?

All employees and executive and non-executive directors who have obtained a minimum of 3 months service with the Group as at 1 October 2010 are eligible to participate in the Scheme and will be made an offer of Rights under the Scheme. In order to accept the Offer and be granted Rights, the Participant must remain an employee or executive and non-executive director of the Group (as the case may be).

(c) How are the Rights exercised?

The Company will advise the Participant of the date that each of the conditions precedent to the Rights is satisfied. On receipt of that notification, the percentage (as noted above) of the total number of Rights allocated to the Participant may be exercised. The Participant may exercise some or all of those Rights by notice in writing to the Company requesting it issue to the Participant one free Share for each Right exercised.

(d) Who is the Shareholder?

The Participant will receive full legal ownership of the Shares on the earliest to occur of the date the Participant applies to have the Shares transferred to them (after satisfaction of the 'Transfer Conditions', as defined in the Scheme Rules), the date the Participant ceases to be employed by the Company or the date that is 7 years after the issue of those Shares.

(e) Are there Transfer Conditions on the Shares?

The Company has determined that for this offer, once the Participant exercise their Rights, the Participant will not be able to request a release of their Shares from the Scheme Trustee until the earlier of the date the Participant ceases employment with the Group (excluding circumstances where the Participant's Shares are forfeited under the Scheme) or 1 July in the second full financial year following the year in which the Participant exercise their Rights.

(f) Shareholder's rights

The Participant may by notice in writing direct the Scheme Trustee how to vote the Shares held on trust for the Participant under the Scheme, either generally or in relation to a particular resolution. If the Participant does not direct the Scheme Trustee how to vote, the Company may do so on their behalf.

The Participant will also be entitled to participate in any bonus or rights issues (should they occur).

(g) Can the Participant sell the Shares?

If Shares are issued to a Participant, the Board has determined that the Participant's Shares will be held in the Scheme (on the Participant's behalf) by the Scheme Trustee for up to 7 years or until the earliest to occur of the following:

- if there are remaining conditions or transfer restrictions attaching to the Shares, those conditions / transfer restrictions are satisfied;
- if the Participant is fully entitled to the Shares, the Participant ceases to be employed by the Company; or
- the Board, in its absolute discretion, reduces or waives this condition and permits the Participant to withdraw the Shares from the Scheme if there are Special Circumstances,

in which case the Participant's Shares will be transferred to the Participant and the Participant may sell them if they wish.

(h) Leaving employment - Prior to satisfaction of any Milestones

Subject to the forfeiture provisions below, if the Participant elects to participate in the Scheme, but cease to be employed by the Group before any of the conditions attaching to the Rights are satisfied, the Participant's entitlement to the Rights will lapse and all rights to require that free Shares be issued to the Participant in respect of those Rights will cease.

(i) Leaving Employment - Following completion of one or more Milestones

Subject to the forfeiture provisions below, if the Participant ceases employment with the Group before all the conditions attaching to the Rights are satisfied, the percentage of the Rights that have not vested (i.e. those Rights in respect of which the conditions of exercise have not been satisfied) will lapse and all rights to require Shares be issued to the Participant in respect of those Rights will cease. The Participant will not be entitled to any compensation in respect of those Rights which are forfeited.

If the Participant ceases employment with the Group after all of the conditions attaching to the Rights are satisfied, the Participant will be permitted to retain all Rights allocated to the Participant and to exercise those Rights or, if the Rights have already been exercised, withdraw the resulting Shares from the Scheme and deal with them as the Participant wishes.

If the Participant ceases to be employed by the Group as a result of death or other Special Circumstances, including total and permanent disablement and redundancy, or as determined by

the Board - at the discretion of the Board, the Participant (or in the event of death, the Participant's legal personal representative) may be permitted to retain the Rights allocated to the Participant and, if the conditions attaching to those Rights are satisfied, the Participant may exercise those Rights and request free Shares be issued to them (**Accelerated Event**).

(j) Forfeiture

The Board may determine that the Participant's Rights and/or Shares (as the case may be) are to be forfeited (and, therefore, the Participant's ownership rights in those Rights / Shares lost) if:

- the Participant has a judgment entered against them in any criminal or civil proceedings in respect of the Participant's duties in their capacity as an officer or employee of the Group;
- in the Board's opinion, the Participant has done an act which has brought any member of the Group into disrepute; or
- in the Board's opinion, the Participant has committed an act of fraud, dishonesty, gross misconduct in relation to the affairs of the Group (whether or not the Participant is charged with an offence) or any act of harassment or discrimination or seriously breached any duty to the Group.

In all cases, all Rights / Shares will be liable to be forfeited. The Participant will not be entitled to any compensation in respect of Rights or Shares which are forfeited.

## 6. Grant of Conditional Rights to Mr Robert Klupacs (Resolution 5)

### 6.1 Conditional Rights Offered

Following the annual review of performance for the year ended 30 June 2010; in October 2010 the Board approved, subject to receipt of necessary shareholder approval, to grant Mr Robert Klupacs 520,000 Rights under the Scheme and, upon exercise of those Rights in accordance with the Milestones, the acquisition of 520,000 ordinary shares underlying those Rights.

If approved by Shareholders, the Rights would be granted pursuant to the terms and conditions of the Scheme. The Rights would be granted to Mr Klupacs as soon as practicable after the meeting and in any event, no later than 12 months from the date of the meeting.

### 6.2 Conversion of Conditional Rights into Shares

The Rights are proposed to be granted for no cash consideration and with a zero exercise price. Exercise of the Rights are subject to the conditions as described in section 5.4(a) of this Notice of AGM.

### 6.3 Legal Requirements

The grant of securities to a director under an employee incentive scheme requires the approval of shareholders under Listing Rule 10.14. Listing Rule 10.14 provides that a company must not permit a Director or their associates to acquire securities under an employee incentive scheme without shareholder approval. The Scheme constitutes an 'employee incentive scheme' under the Listing Rules.

### 6.4 Disclosures for the purposes of Listing Rule 10.14

It is proposed that Mr Klupacs will participate in the Scheme. As Mr Klupacs is a director of the Company, the approval of shareholders is required, with the notice of AGM to comply with either Listing Rule 10.15 or 10.15A. This Notice of AGM is proposed to comply with Listing Rule 10.15A. Other Directors are eligible to be offered the opportunity to join the Scheme, however as at the date of Notice of AGM, no such offer has been made.

The following disclosures are made for the purposes of Listing rule 10.15A:

- (a) the maximum number of Rights that can be awarded to Mr Klupacs under this approval is 520,000;
- (b) the price payable on the issue or exercise of each Right is nil;
- (c) no persons referred to in Listing Rule 10.14 have previously received approval to participate in the Scheme;
- (d) the names of all persons referred to in Listing rule 10.14 entitled to participate in the Scheme are as follows Mr Robert Klupacs, Ms Dominique Fisher, Mr Don Clarke, Dr Errol Malta, Ms Tina McMeckan, and Mr Carlo Montagner;
- (e) there is no loan proposed in relation to the proposed award of Rights to Mr Klupacs;
- (f) details of any Rights issued under the Scheme will be published in each annual report of the Company relating to a period in which the Rights have been issued, and that Resolution 5 was passed;
- (g) any person other than those listed above in sub paragraph (d) who becomes entitled to participate in the Scheme and who were not named in these Explanatory Notes will not participate until approval is obtained under Listing Rule 10.14; and
- (h) the Rights that are awarded to Mr Klupacs will be awarded no later than three years after the AGM but it is expected that 520,000 Rights will be granted no later than one month after the AGM.

## **6.5 Advantages and Disadvantages**

The Board notes that advantages may accrue to the Company and Shareholders as a result of the passing of this Resolution. These advantages potentially include the alignment of Mr Klupacs's interests more closely with those of Shareholders, with a strong focus on the delivery of long term total Shareholder return.

The Board notes that disadvantages may accrue to the Company and Shareholders as a result of the passing of this Resolution. The only disadvantage identified by the Board is dilution to Shareholders' interest in the Company as a result of the grant of Shares under the Rights. On balance, the Board believes the advantages clearly outweigh the disadvantages.

## **6.6 What is the Board's recommendation?**

The Board has agreed to approve the issue of Rights to Mr Klupacs to provide an incentive to improve the performance of the Company and, in turn, Shareholder value.

The Board considers the issue of Rights to Mr Klupacs in these circumstances to be appropriate and reasonable and recommends you vote in favour.

# **7. Approval of the Issue of Conditional Rights on Accelerated Event and Payment of Termination Benefit**

## **7.1 Why is this resolution being proposed?**

Shareholders may be aware of changes to the Corporations Act in November 2009 relating to 'golden handshake' provisions. Sections 200B and 200E of the Corporations Act prohibit the Company from giving a person (who holds or has held in the previous 3 years a managerial or executive office in the Group) a benefit in connection with that person's retirement from office, or position of employment in excess of that person's annual base salary, unless approved by shareholders or such benefit is exempt from the need for shareholder approval.

A consequence of the changes is that it may (in general terms) prohibit the Company from providing the benefit of converting an Executive Officer's Rights into Shares upon an Accelerated Event (such as redundancy) (the value of that benefit being the Acceleration Benefit). The value of the Acceleration Benefit, when combined with the Executive Officer's existing termination benefits payable in cash, may cause the combined termination benefit (including the Acceleration Benefit) to exceed the limit permitted under the Corporations Act without shareholder approval. Broadly the limit is prescribed as the average annual base salary of the relevant Executive Officer.

This resolution is proposed to seek Shareholder approval to pay or provide Mr Robert Klupacs a combined termination benefit (comprising both a payment in accordance with existing employment arrangements and the Acceleration Benefit) potentially in excess of his average annual base salary remuneration.

## **7.2 If you approve this resolution, what can the Company do?**

Approval by Shareholders of Resolution 6 will give the Company authority to convert any Rights that Mr Klupacs may hold into shares upon an Accelerated Event, even if the value of the associated Acceleration Benefit, when combined with his existing termination benefit (described below as, in summary, an existing benefit of up to a 6 month notice period) exceeds his average annual base salary remuneration.

Approval of the Resolution 6 does not give the Board authority to:

- (a) pay ex-gratia golden handshakes to Mr Klupacs; nor
- (b) give authority to accelerate the vesting of any Rights.

## **7.3 Maximum benefit payable**

- (a) Existing benefit

Mr Klupacs is eligible for up to a 6 month payment in lieu of notice period as a termination benefit (**Termination Benefit**). More detail on the Termination Benefit is provided below.

- (b) New proposed additional benefit

The introduction of the Scheme provides Mr Klupacs with an at-risk component to his remuneration package. The delivery of the benefit will depend on the date of the Scheme Booklet and satisfaction of the Milestones (subject to any earlier Acceleration Benefit occurring). Accordingly, benefits under the Scheme may accrue to Mr Klupacs, that arise from accelerated vesting of Rights under the Scheme in certain circumstances. Circumstances in which the accelerated vesting can occur include illness, death, redundancy and other circumstances where the Board determines that Mr Klupacs should be eligible to benefit from the accelerated vesting of the Rights.

The value of the Shares Mr Klupacs may receive under Scheme depend on whether the Milestones are met and the value of the Company's Shares at exercise. For example, in the case of the Mr Klupacs, assuming:

- (i) all Rights are converted to Shares;
- (ii) a \$0.90 share price,

the value would be \$468,000.

#### **7.4 Background**

As referred to above in section 5.4, Rights will only convert to Shares subject to:

- (a) the Milestones applicable to the Rights being met by the relevant date; or
- (b) an Accelerated Event occurring.

#### **7.5 Accelerated Event**

Rights granted under the Scheme will convert to Shares if an Accelerated Event has occurred. For the avoidance of doubt, if an Accelerated Event occurs, the Milestones do not apply to any of the Rights granted under the Scheme to Mr Klupacs.

An Accelerated Event includes any event under the Scheme where Rights are converted to Shares otherwise than in accordance with satisfaction of the Milestones, for instance where there is a takeover offer, merger or sale of the Company or another corporate control event. Further detail on an Accelerated Event is provided in section 5.4(i).

#### **7.6 Termination Benefit**

A Termination Benefit is payable where Mr Klupacs:

- (a) is entitled to receive a payment from the Company on termination of employment by the Company; or
- (b) is otherwise made redundant.

The amount of a Termination Benefit includes up to 6 months' pay in lieu of the Company giving notice of termination of office or employment, plus up to 100% of any short or long term incentive plan, if any, that is payable in cash (or where payment in case is one of the payment alternatives, excluding any benefit payable under the Scheme).

For the avoidance of doubt, the Company is seeking shareholder approval for the purposes of section 200B and 200E of the Corporations Act for Mr Klupacs to receive:

- (a) a benefit arising from the grant, vesting or conversion of Rights from time to time granted to him including as a result of an Accelerated Event; and
- (b) any Termination Benefit that is payable.

#### **7.7 Legal Requirements – Accelerated Event and Termination Benefit**

Subject to a number of exceptions, Shareholder approval must be given for the purposes of sections 200B and 200E of the Corporations Act for the Company to give a person a benefit in connection with that person's retirement from office, or position of employment, in a company or a related body corporate if:

- (a) the office or position is a managerial or executive office; and
- (b) the retiree has, at any time during the last three years before his or her retirement, held a managerial or executive office in the Company or a related body corporate.

The term 'benefit' has a wide operation and extends to:

- (a) early vesting of the Rights under any of the categories of Accelerated Event as described above; and
- (b) payment of any Termination Benefit (but excludes payments for accrued annual leave and long-service leave).

Resolution 6 has therefore been proposed to deal with Acceleration Benefits in respect of Rights granted under the Scheme and any payment of a Termination Benefit.

The Resolution applies to:

- (a) the Rights proposed to be granted under the Scheme to Mr Klupacs and such Rights vest in accordance with an Accelerated Event; and
- (b) any Termination Benefit payable to Mr Klupacs.

The value of any Acceleration Benefit cannot currently be ascertained. The details of the Acceleration Benefits for which approval is sought are as follows:

<b>Description of benefit</b>	<b>Manner in which value to be calculated</b>	<b>Matters, events and circumstances that will, or are likely to, affect the calculation of value</b>
Vesting of Rights if Mr Klupacs ceases employment, or is no longer in office, with the Company, prior to the satisfaction of a Milestone due to an Accelerated Event.	The Company will calculate the value of this benefit as being equal to the value of the number of Rights that vest, where that value is determined as being equal to the closing market price of a Share on ASX on the ASX trading day before the date of the calculation.	<p>(a) The number of Rights held by Mr Klupacs prior to cessation of employment or loss of office with the Company;</p> <p>(b) the amount of time under the Scheme that has elapsed by the date that employment or office ceases; and</p> <p>(c) the closing market price of a Share on ASX on the ASX trading date before the date of calculation.</p>

The amount of any Termination Benefit cannot currently be ascertained. The details of the Termination Benefit for which approval is sought are as follows:

<b>Description of benefit</b>	<b>Manner in which value to be calculated</b>	<b>Matters, events and circumstances that will, or are likely to, affect the calculation of value</b>
<p>Payment of Termination Benefit where Mr Klupacs:</p> <p>(a) has his employment or position terminated on notice by the Company; or</p> <p>(b) is otherwise made redundant.</p>	The Company will calculate the value of this benefit as including up to 6 months' pay in lieu of the Company giving notice of termination of office or employment plus up to 100% of any short or long term incentive plan, if any, that is payable in cash (or where payment in cash is one of the payment alternatives) excluding any benefit payable under the Scheme.	<p>(a) The amount Mr Klupacs is entitled to receive from the Company by way of remuneration at the time of his termination;</p> <p>(b) The time after the commencement of the financial year that notice is served terminating employment; and</p> <p>(c) The proportion of any short or long term incentive plan, if any, that is payable in cash (or where payment in case is one of the payment alternatives) excluding any benefit payable under the Scheme.</p>

## **7.8 Advantages and Disadvantages**

The Board notes that advantages may accrue to the Company and Shareholders as a result of the passing of this Resolution. These advantages include the continuing focus of the Company's Mr Klupacs on Shareholders' long term interests.

The Board recognises that the sector in which the Company operates is dynamic with significant merger and acquisition activity. The passing of this resolution will enable Mr Klupacs to receive any accrued benefits under the Scheme that may otherwise be lost or voided under a takeover or other Accelerated Event. The Board considers it advantageous that Mr Klupacs should be entitled, in these limited circumstances, to receive the benefits of any granted at-risk component of their remuneration.

The Board believes that keeping the senior executives focussed on long term value creation will be in the best interests of all Shareholders and considers this resolution will recognise its long term incentive commitment to Mr Klupacs.

The Board notes that disadvantages may accrue to the Company and Shareholders as a result of the passing of this Resolution. The only material disadvantage identified by the Board is dilution to Shareholders' interest in the Company as a result of the grant of Shares under the Rights. Further, it should be noted that approval of this resolution may cause the conversion of granted Rights that Mr Klupacs may hold into shares upon an Accelerated Event occurring. This conversion will occur irrespective of the Milestones being achieved. On balance, the Board believes the advantages clearly outweigh the disadvantages.

## **7.9 Board's Recommendation**

The Board considers the adoption of this resolution to be appropriate and reasonable and recommends you vote in favour.

## 8. How to Vote

To vote on the Resolutions to be put to the AGM follow these steps:

- EITHER**
1. Complete and return the proxy form so that it is received by Computershare Investor Services Pty Limited, at Yarra Falls, 452 Johnston Street, Abbotsford, Victoria, 3067 (hand delivery) or at GPO Box 242, Melbourne, Victoria, 3001 (postal delivery) or on facsimile number 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia), as soon as possible and in any event, not later than 48 hours prior to the time appointed for the AGM.
- OR**
2. Attend the AGM.

The sending of a proxy form will not prevent you from attending and voting at the AGM.

## 9. Glossary

**Acceleration Benefit** means the benefit to a Participant upon accelerated vesting of the Shares under the Scheme.

**Acceleration Event** includes any event under the Scheme where Rights are converted to Shares otherwise than in accordance with satisfaction of the Milestones, and is described in more detail in section 5.4(i).

**AGM** means the Annual General Meeting of the Shareholders of the Company to be held at Computershare Conference Centre, Yarra Falls, 452 Johnston Street, Abbotsford, Melbourne, Victoria on Thursday, 11 November 2010 at 10.00 am.

**Annual Report** means the annual report of the Company for the year ended 30 June 2010.

**Board** means the Board of the Directors.

**Company** means Circadian Technologies Limited.

**Corporations Act** means the Corporations Act 2001 (Cth).

**Directors** means a director of the Company as at the date of this Notice of AGM.

**Executive Officer** means a person who holds a managerial or executive office in the Company or within the Group.

**Group** means the Company and its Related Bodies Corporate.

**Listing Rules** means the Listing Rules of the Australian Securities Exchange.

**Milestone** means a milestone that, in the absence of an Acceleration Event, must be achieved before a Right crystallises into a Share.

**Notice of AGM** means the notice of meeting attaching to and forming part of the Explanatory Notes, calling the Company's AGM to be held on 11 November 2010.

**Participant** means a participant in the Scheme.

**Related Bodies Corporate** has the meaning given to it in section 50 of the Corporations Act.

**Resolution** means a resolution (including a special resolution) set out in the Notice of AGM.

**Rights** means a conditional right under the Scheme.

**Scheme** means the Company's Employee Conditional Rights Scheme.

**Scheme Booklet** means the Scheme offer booklet sent to eligible employees of the Company in connection with the Scheme.

**Scheme Rules** means the rules governing the operation of the Scheme as amended from time to time.

**Scheme Trustee** means the trustee elected in connection with the Scheme, being either a wholly owned subsidiary of the Company or a third party trustee company.

**Share** means a fully paid ordinary share of the Company.

**Shareholder** means a holder of ordinary Shares.

**Termination Benefit** means a benefit payable to Mr Robert Klupacs upon his retirement from office and includes those events described in section 7.6.

**Trust Deed** means the trust deed under which the Scheme Trustee agrees to hold Scheme Shares on trust for the Participants for the purposes of the Scheme.

**VWAP** means Volume Weighted Average Price.

These Explanatory Notes are dated 11 October 2010.

If you have any questions about the AGM, the Resolutions to be put to the AGM or the proposals being considered, please contact the Company Secretary on 03 9826 0399.