1 February 2005

**CIRCADIAN TECHNOLOGIES LIMITED**
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The Companies Section
The Australian Stock Exchange Limited
530 Collins Street
MELBOURNE VIC 3000

No. of Pages: 32

Dear Sir/Madam

## Re: SHAREHOLDER DISTRIBUTION & HALF-YEAR REPORT (REVIEWED) PERIOD ENDED 31 DECEMBER 2004

### SHAREHOLDER DISTRIBUTION

Circadian Technologies Limited (ASX: CIR) is pleased to announce that the Board has approved a distribution to shareholders in the form of a special unfranked dividend of 15 cents per share. The total distribution will amount to $6m.

Circadian shares will trade "ex dividend" from Friday 4th February. The Record Date will be Thursday 10th February, with payment of the distribution being made as soon as practicable after that.

### HALF-YEAR REPORT

In accordance with Listing Rule 4.2A, we enclose the Half-Year Report (reviewed) on the consolidated results of Circadian Technologies Limited ('Circadian' or 'consolidated entity') for the half-year ended 31 December 2004.

**Results**

The Directors report a consolidated profit of $26,746,745 after income tax of nil (2003: $8,634,387 including an income tax benefit of $37,500). The profit for the period reflects the gain on the disposal of the consolidated entity's interest in Axon Instruments Inc amounting to $26,452,624, which was acquired by the US company Molecular Devices Corporation ("Molecular Devices") in a merger transaction. The consideration received by Circadian was partly paid in cash (approximately 50%) and partly paid by the issue of Molecular Devices shares (approximately 50%). The consolidated entity during the period under review also sold its interest in Molecular Devices resulting in a further gain of $3,490,252. These gains are offset by a foreign exchange loss of $1.1 million due to the strengthening of the Australian dollar against the US dollar during the period. No capital gains tax has arisen on the disposal of Circadian's holdings in Axon or Molecular Devices shares. The Half-Year Report attached provides more information relating to the disposal of the interests in Axon and Molecular Devices.

The profit for the previous corresponding period included a gain of $6,235,425 on the sale of 6 million fully paid ordinary shares in Metabolic Pharmaceuticals Limited. Circadian retains 48 million ordinary shares in Metabolic representing 20.8% of the issued capital of that company.

The current period's result is also after an unrealised loss of $1,130,583 in the combined book values of Circadian's shareholdings in Amrad Corporation Limited ("Amrad") and Avexa Limited ("Avexa"). In September 2004 Amrad demerged its anti-infectives drug portfolio into a new corporate entity, Avexa Limited, which was listed on the Australian Stock Exchange. This unrealised loss reflects the decrease in both Amrad's and Avexa's respective share prices during the period under review. The unrealised provision for diminution in the combined book value of these holdings has increased from $4,900,634 to $6,031,217. Further information regarding the Avexa demerger is provided in the Half-Year Report attached.

Subsequent to 31 December 2004, the combined market value of Circadian's shareholdings in Amrad and Avexa increased by $1,059,922 to $18,018,672. The increase in market value of these investments since period end is not reflected in the 31 December 2004 financial results.

The consolidated profit for the previous corresponding period of $8,634,387 included an unrealised gain in the book value of Circadian's shareholding in Amrad (i.e. before Avexa was demerged) of $3,109,104 reflecting the increase in Amrad's share price from 30 June 2003 to 31 December 2003.

The profit for the current period is also after net operating costs of $804,151 (2003: $747,642) which includes all research and development, patenting costs incurred and interest income earned during the period.

Circadian's listed share portfolio had a market value of $87.5 million at 31 January 2005, significantly in excess of the book value of $20 million. Details with respect to these holdings are provided in this announcement under the heading "Circadian's Holdings in Listed Companies and Cash".

Net cash reserves (total cash less borrowing) as at 31 January 2005 amounted to $27,048,922.

**Key Highlights**
**(To be read in conjunction with the Directors' Report which contains a detailed report on all Circadian's projects and holdings as contained in the Half-Year Report attached.):**

**Capital Return**

- *Capital Return* - In October 2004 Circadian provided its shareholders with a 50 cents per share return comprising of the following:
    - a capital return of 38 cents per share
    - an unfranked special dividend of 12 cents per share

  The total distribution amounted to $20.1 million.

**R&D Projects and Circadian's listings**

- *Alzheimer's Disease Project (Circadian's interest: 100%)* - several compounds were synthesized and tested in the assay system for measuring uptake of compounds into the brain. Work continues to establish the feasibility of the uptake of antisense oligonucleotides into the brain.

- *Cancers of Unknown Primary Project* - a protocol is being developed to access samples from a third party clinical trial (planned to be conducted in the UK and the US) to validate the project's microarray system. Also, a new PCR-based assay platform is being developed to enable use of routine diagnostic samples in the test.

- *Metabolic Pharmaceuticals Limited (Circadian interest: 21%)* - In December 2004 Metabolic Pharmaceuticals Limited (Metabolic) released the detailed results of its Phase 2b clinical trial on obesity drug AOD9604. As advised by Metabolic, this Phase 2 trial was "designed to explore for an effective dose and provide the evidence sufficient to justify further development. This objective was achieved."
  *(ASX: MBP; website: www.metabolic.com.au)*

- *Disposal of Axon Instruments Inc and Molecular Devices shares* - As stated earlier, in July 2004 the consolidated entity's holding in Axon was acquired by US company Molecular Devices in a merger transaction. The total gain realised by Circadian, including the sale of the Molecular Devices shares received as part consideration for the Axon disposal, amounted to $29,942,876. No capital gains tax has arisen on the disposal of Circadian's holdings in Axon or Molecular

Devices shares.

- *Antisense Therapeutics Limited (Circadian's direct and indirect interest: 27%)* - Antisense Therapeutics announced on 17 November 2004 "that its application to conduct a "proof of concept" study of ATL1101 in patients suffering from psoriasis has been approved by the Institutional Review Board and the Ethics Committee of the Clinical Research Organisation that will conduct the study. Patient recruitment for the study is currently underway."

- On 21 December 2004 Antisense Therapeutics announced "the initiation of a Phase 2a clinical trial of ATL1102 in patients with multiple sclerosis (MS)." "In this multi-centre, randomised, double-blinded, placebo-controlled clinical trial, approximately 60 patients with relapsing-remitting MS will receive ATL1102 or placebo over eight weeks. ATL1102 will be delivered by subcutaneous injection on a twice-a-week dosing schedule at a dose of 400 mg per week. The goal of the Phase 2a trial is to obtain preliminary evidence of the drug's effectiveness which will be evaluated using MRI (magnetic resonance imaging) indices."
*(ASX: ANP; website: www.antisense.com.au)*

- *Optiscan Imaging Limited (Circadian interest: 7%)* - On 26 October 2004 Optiscan announced, "that the US Food and Drug Administration has provided regulatory clearance for the Pentax/Optiscan flexible endo-microscope to be sold in the USA. This follows the announcement on 15 October that regulatory approval for Europe and other countries, known as 'CE Mark' has also been granted."

- On 31 January 2005 Optiscan advised the market that it "has received a first year order worth over $5 million from Japanese imaging giant Pentax for supply of miniaturised microscope components that will be used to produce a new type of medical instrument called a flexible endo-microscope." "Optiscan CEO, Matthew Barnett, said 'We are thrilled with the size of this order as it is greater than our upper end forecast of 80 units. It shows that Pentax is committed to this technology and is a measure of their confidence for its success in the market.' "
*(ASX: OIL; website: www.optiscan.com.au)*

**Other**

- *Amrad Corporation Limited (Circadian interest: 22%)* - On 7 September 2004, Amrad announced "successful completion of the final steps in the demerger and spin-out of its anti-infectives business, Avexa Limited". Amrad shareholders became entitled to 1 ordinary share in Avexa for every 2 ordinary shares held in Amrad (at a record date) which in total comprised approximately 80% of the demerged company while Amrad itself retained 19.99%. Circadian, as an Amrad shareholder, became entitled to 17.6% of the total issued capital of Avexa. Official quotation of Avexa's issued share capital on the Australian Stock Exchange commenced on 23 September 2004.
*(ASX: AML; website: www.amrad.com.au)*

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

**Circadian's Holdings in Listed Companies and Cash**

As at close of trading on 31 January 2005, the value of Circadian's listed holdings and net cash was as follows:

| Holdings and Cash | Shareholding % | Portfolio Value | |
|---|---|---|---|
| | | **$'000** | **$ per Circadian share** |
| Metabolic Pharmaceuticals | 21 | 53,285 | 1.33 |
| Optiscan Imaging | 7 | 2,357 | .06 |
| Antisense Therapeutics ¶ | 27 | 13,888 | .34 |
| Amrad Corporation | 22 | 14,698 | .37 |
| Avexa Limited | 18 | 3,321 | .08 |
| Cash | | 27,000 | .67 |
| | | | |
| Total | | **114,549** | **2.85** |

¶ Including listed options

The market value of the company's listed share portfolio as at 31 January 2005 and net cash is $114.5 million, equating to $2.85 per Circadian share.

This letter and the attached Half-Year Report form part of this announcement to the Australian Stock Exchange Limited, and should be read in conjunction with the Company's Annual Report for the year ended 30 June 2004.

Yours faithfully

**Natalie Korchev**

**Company Secretary**

# APPENDIX 4D

# Half-Year Report

| | |
|---|---|
| Name of entity: | **CIRCADIAN TECHNOLOGIES LIMITED** |
| ABN: | **32 006 340 567** |
| Reporting period: | **HALF-YEAR ENDED 31 DECEMBER 2004** |
| Previous corresponding period: | HALF-YEAR ENDED 31 DECEMBER 2003 |

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1. Results for announcement to the market

2. Financial Report:
   - Independent Review Report
   - Directors' Report
   - Directors' Declaration
   - Financial Statements

3. Other Information


**THIS HALF-YEAR REPORT IS TO BE READ IN CONJUNCTION WITH THE COMPANY'S 2004 ANNUAL REPORT**

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

# RESULTS FOR ANNOUNCEMENT TO THE MARKET

The consolidated results of Circadian Technologies Limited for the six months ended 31 December 2004 are as follow:

| **Revenues and Results from Ordinary Activities:** | | **Change compared to 31/12/03 %** | | **31/12/04 $** |
|---|---|---|---|---|
| Revenues from ordinary activities¶ | Up | 595% | to | 46,613,080 |
| Profit from ordinary activities after tax attributable to members | Up | 210% | to | 26,746,745 |
| Net profit for the period attributable to members | Up | 210% | to | 26,746,745 |

**¶Revenues**

The figure for the period ended 31 December 2004 includes gross revenue of $45,781,061 recognised in the Statement of Financial Performance in accordance with Australian Accounting Standards for the sale of shares in Axon Instruments Inc, and the subsequent sale of shares in Molecular Devices Corporation received as part consideration for the sale of the Axon shares.

The total cash proceeds from these two transactions was $31,875,730 from an initial investment cost of $1,932,854.

**Capital Return & Other Shareholder Distributions**

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

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

The total distribution amounted to $20.1 million.

Circadian obtained a Class Ruling from the Australian Taxation Office indicating that, under this distribution, the return of capital component of 38 cents will not be a dividend for income tax purposes. The Record Date for the 50 cents per share distribution was 15 October 2004 and payments were mailed out on 29 October 2004.

On 1 February 2005 the Board of Directors approved a distribution to shareholders in the form of a special unfranked dividend of 15 cents per share. The total distribution will amount to $6m.

Circadian shares will trade “ex dividend” from Friday 4th February. The Record Date will be Thursday 10th February, with payment of the distribution being made as soon as practicable after that.

**Brief explanation of figures reported above:**

The Directors report a net consolidated profit of $26,746,745 (2003: $8,634,387). The profit for the period reflects the gain on the disposal of the consolidated entity's interest in Axon Instruments Inc amounting to $26,452,624, which was acquired by the US company Molecular Devices Corporation ("Molecular Devices") in a merger transaction. The consideration received by Circadian was partly paid in cash (approximately 50%) and partly paid by the issue of Molecular Devices shares (approximately 50%). The consolidated entity during the period under review also sold its interest in Molecular Devices resulting in a further gain of $3,490,252. These gains are offset by a foreign exchange loss of $1.1 million due to the strengthening of the Australian dollar against the US dollar during the period. No capital gains tax has arisen on the disposal of Circadian's holding in Axon or Molecular Devices shares. The Half Year Report attached provides more information relating to the disposal of the interests in Axon and Molecular Devices.

The profit for the previous corresponding period included a gain of $6,235,425 on the sale of 6 million fully paid ordinary shares in Metabolic Pharmaceuticals Limited. Circadian retains 48 million ordinary shares in Metabolic representing 20.8% of the issued capital of that company.

The current period's result is also after an unrealised loss of $1,130,583 in the combined book values of Circadian's shareholdings in Amrad Corporation Limited ("Amrad") and Avexa Limited ("Avexa"). In September 2004 Amrad demerged its anti-infectives drug portfolio into a new corporate entity, Avexa Limited, which was listed on the Australian Stock Exchange. This unrealised loss reflects the decrease in both Amrad's and Avexa's respective share prices during the period under review. The unrealised provision for diminution in the combined book value of these holdings has increased from $4,900,634 to $6,031,217. Further information regarding the Avexa demerger is provided in the Half Year Report attached.

Subsequent to 31 December 2004, the combined market value of Circadian's shareholdings in Amrad and Avexa increased by $1,059,922 to $18,018,672. The increase in market value of these investments since period end is not reflected in the 31 December 2004 financial results.

The consolidated profit for the previous corresponding period of $8,634,387 included an unrealised gain in the book value of Circadian's shareholding in Amrad (i.e. before Avexa was demerged) of $3,109,104 reflecting the increase in Amrad's share price from 30 June 2003 to 31 December 2003.

The profit for the current period is also after net operating costs of $804,151 (2003: $747,642) which includes all research and development, patenting costs incurred and interest income earned during the period.

For further details relating to the current period's results, refer to the Directors' Report contained within the Financial Report for the Half-Year Ended 31 December 2004.

**Circadian Technologies Limited and Controlled Entities**

ABN 32 006 340 567

Financial Report for the half-year ended 31 December 2004

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

# DIRECTORS' REPORT

The Board of Directors of Circadian Technologies Limited ("Circadian") has pleasure in submitting its report in respect of the financial half-year ended 31 December 2004.

## Directors

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

Sir Peter J Derham (Non-Executive Chairman)
Mr Leon Serry (Managing Director)
Mr Graeme Kaufman (Executive Director)
Mr Ian R Davis
Dr John Stocker
Mr James MacKenzie

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

## Principal Activities

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

## Results

The consolidated profit of the consolidated entity for the half-year was $26,746,745 (2003: $8,634,387) after income tax of nil (2003: included an income tax benefit of $37,500). The profit for the period reflects the gain on the disposal of the consolidated entity's interest in Axon Instruments Inc amounting to $26,452,624, which was acquired by the US company Molecular Devices Corporation ("Molecular Devices") in a merger transaction. The consideration received by Circadian was partly paid in cash (approximately 50%) and partly paid by the issue of Molecular Devices shares (approximately 50%). The consolidated entity during the period under review also sold its interest in Molecular Devices resulting in a further gain of $3,490,252. These gains are offset by a foreign exchange loss of $1.1 million due to the strengthening of the Australian dollar against the US dollar during the period. The Review of Operations section of this report provides more information relating to the disposal of the interests in Axon and Molecular Devices.

The profit for the previous corresponding period included a gain of $6,235,425 on the sale of 6 million fully paid ordinary shares in Metabolic Pharmaceuticals Limited. Circadian retains 48 million ordinary shares in Metabolic representing 20.8% of the issued capital of that company.

The current period's result is also after an unrealised loss of $1,130,583 in the combined book values of Circadian's shareholdings in Amrad Corporation Limited ("Amrad") and Avexa Limited ("Avexa"). In September 2004 Amrad demerged its anti-infectives drug portfolio into a new corporate entity, Avexa

Limited, which was listed on the Australian Stock Exchange. This unrealised loss reflects the decrease in both Amrad's and Avexa's respective share prices during the period under review. The unrealised provision for diminution in the combined book value of these holdings has increased from $4,900,634 to $6,031,217. Further information regarding the Avexa demerger is provided in the Review of Operations section of this report.

Subsequent to 31 December 2004, the combined market value of Circadian's shareholdings in Amrad and Avexa increased by $1,059,922 to $18,018,672. The increase in market value of these investments since period end is not reflected in the 31 December 2004 financial results.

The consolidated profit for the previous corresponding period of $8,634,387 included an unrealised gain in the book value of Circadian's shareholding in Amrad (i.e. before Avexa was demerged) of $3,109,104 reflecting the increase in Amrad's share price from 30 June 2003 to 31 December 2003.

The profit for the current period is also after net operating costs of $804,151 (2003: $747,642) which includes all research and development, patenting costs incurred and interest income earned during the period.

Net cash reserves (total cash less borrowing) as at 31 December 2004 amounted to $27,330,940.

Excluding the Amrad and Avexa holdings Circadian's listed share portfolio had a market value of $73.7 million at 31 December 2004, compared with a book value of $3.2 million.

## Auditor's Independence Declaration

In accordance with section 307C of the Corporations Act 2001, the Directors have obtained a declaration of independence from Ernst & Young, the consolidated entity's auditors.

## Review of Operations

During the period under review, Axon Instruments Inc, in which Circadian had a 15% interest, was acquired by US company Molecular Devices Corporation giving rise to a gain of $26.5 million for Circadian on the disposal of its holding in Axon. The consolidated entity further progressed its existing research projects and also disposed of its holding of Molecular Devices ordinary shares.

**Profit on sale of Axon Instruments holding**

On 1 July 2004, Molecular Devices Corporation "announced that it has completed its acquisition of Axon Instruments, Inc. The stockholders of both companies have approved the transaction, and all regulatory requirements and other conditions have been satisfied. Pursuant to the merger agreement announced on March 21, 2004, former Axon stockholders are receiving 0.00734 of a share of Molecular Devices common stock and (US) $0.1359 cash for each share of Axon common stock. Molecular Devices is issuing approximately 3.6 million shares of its common stock and paying approximately (US) $68 million cash in exchange for all the outstanding shares of Axon..."

Circadian realised a gain of $26,452,624 on the disposal of its interest in Axon (net consideration of $28,385,478 less cost of investment of $1,932,854).

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

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

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

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

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

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

The post-capital gains tax status of the Axon shares (i.e. the 91% which originally had a pre-CGT status), together with the April 2004 capital gains tax (CGT) amendment, effectively eliminated the tax liability on disposal of the company's entire holding of Axon shares and subsequently the Molecular Devices shares.

**Return of Capital & Other Shareholder Distributions**

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

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

The total distribution amounted to $20.1 million.

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

On 1 February 2005 the Board of Directors approved a distribution to shareholders in the form of a special unfranked dividend of 15 cents per share. The total distribution will amount to $6m.

Circadian shares will trade "ex dividend" from Friday 4th February. The Record Date will be Thursday 10th February, with payment of the distribution being made as soon as practicable after that.

**<u>PROJECTS AND TECHNOLOGY HOLDINGS</u>**

Detailed below is an update on the consolidated entity's interests in research and development projects and listed technology holdings for the half-year ended 31 December 2004. The 30 June 2004 annual report contains detailed background information relating to these projects and holdings and should be read in conjunction with this report.

## NEUROSCIENCE RESEARCH PORTFOLIO

### Alzheimer's Research Project
***Project Owner:*** *Circadian: 100%*

This project, to develop an inhibitor to the p75 nerve growth factor receptor, is based on original work carried out at the Walter & Eliza Hall Institute (WEHI).

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

Research at the WEHI has shown that in animal models, inhibition of the p75 receptor decreases the age-related death of these nerve cells, and also increases their size and output of acetylcholine. It has also been shown to improve memory in these models.

The aim is to develop an inhibitor with the potential to be more effective than current approved drugs, which become less effective with age as the nerve cells die.

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

***Update***

- Several compounds were synthesized and tested in the assay system for measuring uptake of compounds into the brain. Work continues to establish the feasibility of the uptake of antisense oligonucleotides into the brain.

### Analgesic Project - Non-Sedating Analgesics
***Project Owners:*** *Circadian: 85.7%; Monash University: 14.3%*

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

***Update***

- Tests were carried out on selected compounds at an independent research laboratory with the results indicating analgesic effect without the involvement of the central nervous system. A potential partner is being sought for the project.

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

This project relates to the development of a method of treating memory disorders using compounds which block the GABA-C receptor, which the investigations at the University of Sydney found may be important in memory processes.

***Update***

- A European patent was granted in November 2004 for the "method for enhancing cognitive activity using antagonists to the GABA-C receptor in the brain". The equivalent US patent was previously granted in October 2003.

**<u>Neurodegenerative Diseases Project</u>**
***Project Owners:*** *Circadian: 50%; Howard Florey Institute: 50%*

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

***Update***

- A biological test system has been established to assess the effect of candidate compounds on microglia, together with the development of in vivo models.

**<u>Paracetamol Project</u>**
***Project Owners:*** *Circadian: 50%; Howard Florey Institute: 50%*

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

***Update***

- Candidate compounds have been synthesized and are undergoing testing.

**CANCER RESEARCH PORTFOLIO**

**<u>Centre Therapeutics Limited</u> (wholly owned subsidiary of Circadian)– Cancer of Unknown Primaries**
***Project Ownership:*** *50% Centre Therapeutics; 50% Peter MacCallum Cancer Centre*

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

***Update***

- A protocol is being developed to access samples from a third party clinical trial (planned to be conducted in the UK and the US) to validate the project's microarray system. Also, a new PCR-based assay platform is being developed to enable use of routine diagnostic samples in the test.

**<u>CancerProbe Pty Ltd</u> - Cancer Diagnostic/Therapeutics**
***Shareholders:*** *Circadian: 30%; Inventors and Others: 70%*

CancerProbe has lodged patents (patent application) for a potential novel method for rapid identification and detection of cancer-specific antigens. The methodology may have applications as a diagnostic product for a broad range of cancers, including breast, ovarian, colorectal and prostate cancers.

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

***Update***

- Samples of markers expressed in breast cancer cells but not in normal cells have been isolated and identified.

## OTHER RESEARCH

**Syngene Limited - Gene Diagnostics**
***Shareholders:*** *Circadian: 42.4%; Casthree Pty Ltd: 20%; Howard Florey Institute: 19.5%; Howard Florey Institute staff and others: 18.1%*

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

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

***Update***

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

- Syngene has a 15.3% holding in Antisense Therapeutics Limited which had a market value of $6,801,683 compared with a book value of $234,473 at 31 December 2004.

## LISTED TECHNOLOGY HOLDINGS

**Key Highlights:**

Circadian's interests in listed technology holdings are detailed below. Background information with respect to these holdings is contained in Circadian's 2004 annual report which should be read in conjunction with this report.

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

**Metabolic Pharmaceuticals Limited - Advanced Obesity Drug and Other New Drug Development Projects**
***Circadian Holding 31 December 2004 - Market Value:*** *$61.4 million;* ***Book Value:*** *$5K*
***Shareholders:*** *Circadian: 20.8%; Monash University: 9.5%; Others: 69.7%*

The following are excerpts from Metabolic Pharmaceuticals Limited's 13 December and 17 December 2004 ASX announcements. These excerpts should be read in conjunction with both of these announcements.

***AOD9604 Phase 2b Clinical Trial Results***
"On 13 December 2004 Metabolic Pharmaceuticals Limited (Metabolic) released the detailed results of its Phase 2b clinical trial on obesity drug AOD9604."

"Three hundred obese patients were enrolled in a double-blind randomised placebo-controlled trial. Each patient was given the same general diet and exercise advice. Six different dose levels of once daily oral dosing with AOD9604 were tested: 0 mg (placebo), 1 mg, 5 mg, 10 mg, 20 mg and 30 mg, over 12 weeks.

"Metabolic reported the key results provided by an independent statistician of both of the two statistical analyses of weight loss as prescribed in a Statistical Analysis Plan devised and finalised 6 months ago.

One analysis is called "primary" in the plan and another is "secondary". The primary analysis is used to design the required size and duration of the trial and the secondary analysis is exploratory. However both analyses are valid ways to assess weight loss."

"The primary analysis was based on the difference between weight at the start and at Week 12 for each dose group, compared to placebo. A secondary and confirmatory analysis was to use all the weight measurements taken every two weeks over the 12 weeks to calculate the slope of the line of best fit – i.e. the rate of weight change for each patient."

"The 1 mg dose group was the most effective. In this dose group, the weight loss was similar to that achieved with currently available prescription drugs, with a superior tolerability profile. The average weight loss over the 12 weeks was more than triple placebo, 2.8 kg compared to 0.8 kg for placebo."

"On the results of the primary analysis, there is a 90% chance that the 1mg dose of AOD9604 induces weight loss. On the secondary analysis, there is greater than a 99% chance that the 1mg dose of AOD9604 induces weight loss. If the chance is greater than an industry standard of 95% the result is considered to be 'statistically significant'."

"The weight loss rate was maintained throughout the 12 week treatment period, an encouraging trend for expectations of longer term dosing.

AOD9604 showed excellent tolerability at all doses. Existing drugs have well documented side effects, limiting their popularity."

According to Metabolic this Phase 2 trial was "designed to explore for an effective dose and provide the evidence sufficient to justify further development. This objective was achieved."

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

**Optiscan Imaging Limited - Early Cancer Detection**
***Circadian Holding 31 December 2004 - Market Value:*** *$2.2 million;* ***Book Value:*** *$361K*
***Shareholders:*** *Circadian: 7%; Others: 93%*

- On 26 October 2004 Optiscan announced "that the US Food and Drug Administration has provided regulatory clearance for the Pentax/Optiscan flexible endo-microscope to be sold in the USA. This follows the announcement on 15 October that regulatory approval for Europe and other countries, known as 'CE Mark' has also been granted. The regulatory clearances now enable Pentax to make final preparations for market release, involving the production of product marketing materials and product specification information, plus arrangements for commissioning of instruments and training programs for operators."

- On 31 January 2005 Optiscan advised the market that it "has received a first year order worth over $5 million from Japanese imaging giant Pentax for supply of miniaturised microscope components that will be used to produce a new type of medical instrument called a flexible endo-microscope." "Optiscan CEO, Matthew Barnett, said 'We are thrilled with the size of this order as it is greater than our upper end forecast of 80 units. It shows that Pentax is committed to this technology and is a measure of their confidence for its success in the market.' "

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

**Antisense Therapeutics Limited - Gene Directed Therapeutics**
***Circadian Holding 31 December 2004 – Market Value:*** *$10 million;* ***Book Value:*** *$2.8 million*
***Shareholders:*** *Circadian: 20.4%; Syngene: 15.3%; Others: 64.3%*

- Antisense Therapeutics announced on 17 November 2004 "that its application to conduct a "proof of concept" study of ATL1101 in patients suffering from psoriasis has been approved by the Institutional Review Board and the Ethics Committee of the Clinical Research Organisation that will conduct the study. Patient recruitment for the study is currently underway...The trial will take place in Adelaide under the management of CMAX, a Division of the Institute of Drug Technology Australia Limited."

- On 21 December 2004 Antisense Therapeutics announced "the initiation of a Phase 2a clinical trial of ATL1102 in patients with multiple sclerosis (MS)."

  "In this multi-centre, randomised, double-blinded, placebo-controlled clinical trial, approximately 60 patients with relapsing-remitting MS will receive ATL1102 or placebo over eight weeks. ATL1102 will be delivered by subcutaneous injection on a twice-a-week dosing schedule at a dose of 400 mg per week. The goal of the Phase 2a trial is to obtain preliminary evidence of the drug's effectiveness which will be evaluated using MRI (magnetic resonance imaging) indices. MRI's will be conducted at monthly intervals over the eight week dosing period and at monthly intervals during the eight week period following completion of dosing."

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

**AMRAD Corporation Limited**
***Circadian Holding 31 December 2004 -*** Market ***Value:*** *$13.8 million;* ***Book Value:*** *$13.8 million*
***Shareholders:*** *Circadian: 22.4%; Others: 77.6%*

- On 7 September 2004, Amrad announced "successful completion of the final steps in the demerger and spin-out of its anti-infectives business, Avexa Limited". Amrad shareholders became entitled to 1 ordinary share in Avexa for every 2 ordinary shares held in Amrad (at a record date) which in total comprised approximately 80% of the demerged company while Amrad itself retained 19.99%. Circadian, as an Amrad shareholder, became entitled to 17.6% of the total issued capital of Avexa. Official quotation of Avexa's issued share capital on the Australian Stock Exchange commenced on 23 September 2004.

- Amrad announced on 21 October 2004 that "it had received notification of the successful achievement of the third pre-clinical milestone from global pharmaceutical company Merck & Co., Inc which entitles Amrad to payment of US$3 million. Following the milestone payments received in November 2003 and March 2004, achievement of the third milestone reflects the rapid progress in the Company's collaboration to research and develop new asthma therapies. It will bring to US$14 million, Merck's total payments to Amrad since June 2003. The deal is potentially worth US$112 million to Amrad, plus royalties on product sales."

For information regarding the progress of AMRAD's operations see their public announcements which can be found on www.asx.com.au and www.amrad.com.au.

**Avexa Limited**
***Circadian Holding 31 December 2004 - Market Value:*** *$3.1 million;* ***Book Value:*** *$3.1 million*
***Shareholders:*** *Circadian: 17.6%; Amrad: 20%; Others: 62.4%*

- See key highlights for Amrad Corporation Limited above regarding the demerger and spin-out of its anti-infectives business, Avexa Limited in September 2004.

- On 11 January 2005 Avexa announced "that results from an independent US-based research organisation have confirmed the company's positive findings of activity against vancomycin-resistant enterococci (VRE). The results also indicated that Avexa's lead antibacterial compounds showed significant activity against other antibiotic-resistant bacteria."

  " 'These results indicate that our antibacterial program has the potential to generate novel compounds with therapeutic use against a number of bacterial infections including methicillin-resistant *Staphylococcus aureus* (MRSA) bacteria,' said Dr Julian Chick, Avexa's Chief Executive Officer."

- On 18 January 2005, Avexa announced "that it has in-licensed the Phase II HIV drug – SPD754 – from global specialty pharmaceutical company Shire Pharmaceuticals Group plc."

  "SPD754, a nucleoside reverse transcriptase inhibitor (NRTi), has already successfully completed a Phase IIa trial in 63 HIV-infected patients. Avexa is on schedule to initiate the Phase IIb trial, with results expected in the first quarter 2006."

  " 'Avexa has in-licensed this later stage product because of its potential to generate significant revenues and to reduce the overall risk involved in drug development for our shareholders,' said Avexa Chief Executive Officer, Dr Julian Chick."

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

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## INHERENT RISKS OF INVESTMENT IN BIOTECHNOLOGY COMPANIES

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

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

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For and on behalf of the Board:

| | |
|---|---|
| Leon Serry<br>Director | Peter Derham<br>Director |

Melbourne
1 February 2005

ERNST & YOUNG

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Melbourne VIC 3000
Australia

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Melbourne VIC 3001

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DX 293 Melbourne

# Independent review report to members of Circadian Technologies Limited

## Scope

*The financial report and directors' responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows and accompanying notes to the financial statements for the consolidated entity comprising both Circadian Technologies Limited (the company) and the entities it controlled during the period, and the directors' declaration for the company, for the period ended 31 December 2004.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity and that complies with Accounting Standard AASB 1029 "Interim Financial Reporting", in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

*Review approach*

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

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the *Corporations Act 2001*, Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

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

## Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

**Statement**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the consolidated entity, comprising Circadian Technologies Limited and the entities it controlled during the period is not in accordance with:

(a) the *Corporations Act 2001*, including:

(i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2004 and of its performance for the period ended on that date; and

(ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and

(b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Ernst & Young

Denis Thorn

Denis Thorn
Partner
Melbourne
1 February 2004

**Circadian Technologies Limited and Controlled Entities**
**ABN 32 006 340 567**

**Condensed Statement of Financial Position**
**Half-Year Ended 31 December 2004**

| | Note | Consolidated 31 December 2004 $ | 30 June 2004 $ |
|---|---|---|---|
| **Current Assets** | | | |
| Cash assets | | 32,330,940 | 17,431,103 |
| Receivables | | 306,417 | 89,064 |
| Other financial assets | | 34,666 | 39,520 |
| Other | | 231,469 | 257,816 |
| Total Current Assets | | 32,903,492 | 17,817,503 |
| **Non-Current Assets** | | | |
| Receivables | | 544,987 | 544,987 |
| Investments accounted for using the equity method | | 356,119 | 388,819 |
| Other financial assets | 3 | 20,146,069 | 23,340,698 |
| Plant and equipment | | 43,209 | 50,276 |
| Total Non-Current Assets | | 21,090,384 | 24,324,780 |
| Total Assets | | 53,993,876 | 42,142,283 |
| **Current Liabilities** | | | |
| Payables | | 256,978 | 128,386 |
| Interest bearing liabilities | | 5,000,000 | - |
| Provisions | | 318,417 | 303,683 |
| Total Current Liabilities | | 5,575,395 | 432,069 |
| **Non-Current Liabilities** | | | |
| Provisions | | 18,441 | 14,671 |
| Total Non-Current Liabilities | | 18,441 | 14,671 |
| Total Liabilities | | 5,593,836 | 446,740 |
| **Net Assets** | | 48,400,040 | 41,695,543 |
| **Equity** | | | |
| Contributed equity | 4 | 33,169,176 | 48,396,484 |
| Reserves | | 1,391,316 | 1,391,316 |
| Retained profits/(accumulated losses) | 5 | 13,839,548 | (8,092,257) |
| **Total Equity** | | 48,400,040 | 41,695,543 |

The accompanying notes form an integral part of this statement of financial position.

**Circadian Technologies Limited and Controlled Entities**
**ABN 32 006 340 567**

**Condensed Statement of Financial Performance**
**Half-Year Ended 31 December 2004**

| | Note | Consolidated 31 December 2004 $ | Consolidated 31 December 2003 $ |
|---|---|---|---|
| Revenues from ordinary activities | 2 | 46,613,080 | 6,708,048 |
| Write-back of provision for diminution of investments | 2 | - | 3,239,297 |
| Research and development expenses | | (415,739) | (266,872) |
| Investing expenses | 2 | (1,266,627) | (6,933) |
| Cost of investments sold | 2 | (15,838,185) | - |
| Patent expenses | | (78,011) | (29,582) |
| Administrative expenses | | (1,004,493) | (911,033) |
| Borrowing costs | | (80,021) | - |
| Occupancy expenses | | (57,906) | (58,350) |
| Share of net loss of associates accounted for using the equity method | | (32,700) | (77,688) |
| Foreign exchange losses | | (1,092,653) | - |
| **Profit from ordinary activities before income tax benefit** | | **26,746,745** | **8,596,887** |
| Income tax benefit relating to ordinary activities | | - | 37,500 |
| **Net profit attributable to members of the parent entity** | | **26,746,745** | **8,634,387** |
| Movement in option reserve | | - | 5 |
| Share issue and buy-back costs | | - | (3,512) |
| **Total revenues, expenses and valuation adjustments attributable to members of the parent entity and recognised directly in equity** | | **-** | **(3,507)** |
| **Total changes in equity other than those resulting from transactions with owners as owners** | | **26,746,745** | **8,630,880** |
| Basic earnings per share (cents per share) | | 66.66 | 21.46 |
| Diluted earnings per share (cents per share) | | 66.66 | 21.46 |

The accompanying notes form an integral part of this statement of financial performance.

**Circadian Technologies Limited and Controlled Entities**
**ABN 32 006 340 567**

**Condensed Statement of Cash Flows**
**Half-Year Ended 31 December 2004**

| | Consolidated | |
|---|---|---|
| | 31 December 2004 $ | 31 December 2003 $ |
| **Cash Flows from Operating Activities** | | |
| Biotechnology Innovation Fund (BIF) grant income | 93,719 | 80,740 |
| Other receipts | 9,625 | 9,625 |
| Payments to suppliers, employees and for research and development | (1,523,539) | (1,417,659) |
| Borrowing costs | (80,021) | - |
| Interest received | 531,857 | 300,992 |
| Net cash flows from/(used in) operating activities | (968,359) | (1,026,302) |
| **Cash Flows from Investing Activities** | | |
| Purchase of investments | - | (1,009,700) |
| Proceeds from sale of investments | 30,783,076 | 6,235,425 |
| Purchase of plant and equipment | (3,908) | (1,854) |
| Proceeds from sale of plant and equipment | - | 899 |
| Net cash flows from/(used in) investing activities | 30,779,168 | 5,224,770 |
| **Cash Flows from Financing Activities** | | |
| Proceeds from issue of shares and options | 20,000 | 5 |
| Proceeds from borrowings | 5,000,000 | - |
| Payment of unfranked dividend | (4,793,368) | - |
| Return of capital to shareholders | (15,137,604) | - |
| Payments for share buy-back | - | (485,735) |
| Transaction costs paid: share buy-back | - | (3,512) |
| Net cash flows from/(used in) financing activities | (14,910,972) | (489,242) |
| Net increase in cash held | 14,899,837 | 3,709,226 |
| Add opening cash brought forward | 17,431,103 | 14,680,492 |
| Closing cash carried forward | 32,330,940 | 18,389,718 |

The accompanying notes form an integral part of this statement of cash flows.

**Circadian Technologies Limited and Controlled Entities**
**ABN 32 006 340 567**

**Notes to the Half-Year Financial Statements**
**31 December 2004**

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

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

The half-year financial report should be read in conjunction with the Annual Financial Report of Circadian Technologies Limited as at 30 June 2004. It is also recommended that the half-year financial report be considered together with any public announcements made by Circadian Technologies Limited during the half-year ended 31 December 2004 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

**(a) Basis of accounting**

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views).

The half-year financial report has been prepared in accordance with the historical cost convention.

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

| | | Consolidated | |
|---|---|---|---|
| | | 31 December 2004 $ | 31 December 2003 $ |
| **Note 2.** | **Profit from Ordinary Activities** | | |
| **Revenues from ordinary activities:** | | | |
| - Revenue recognised on sale of investments (a) | | 45,781,061 | 6,235,425 |
| - Interest | | 738,070 | 390,473 |
| - BIF grant income | | 85,199 | 73,400 |
| - Other revenue items | | 8,750 | 8,750 |
| Total revenues from ordinary activities | | 46,613,080 | 6,708,048 |
| (a) | Revenue recognised on sale of investments | 45,781,061 | 6,235,425 |
| | Cost recognised on investments sold | (15,838,185) | - |
| | Net gain on sale of investments | 29,942,876 | 6,235,425 |

*31 December 2004*:

On 1 July 2004, Molecular Devices Corporation "announced that it has completed its acquisition of Axon Instruments, Inc. The stockholders of both companies have approved the transaction, and all regulatory requirements and other conditions have been satisfied. Pursuant to the merger agreement announced on March 21, 2004, former Axon stockholders are receiving 0.00734 of a share of Molecular Devices common stock and (US) $0.1359 cash for each share of Axon common stock. Molecular Devices is issuing approximately 3.6 million shares of its common stock and paying approximately (US) $68 million cash in exchange for all the outstanding shares of Axon..."

The current period includes gross revenue of $45,781,061 recognised in the Statement of Financial Performance in accordance with Australian Accounting Standards for the sale of shares in Axon Instruments Inc, and the subsequent sale of shares in Molecular Devices Corporation received as part consideration for the sale of the Axon shares. However, the total cash proceeds from these two transactions was $31,875,730.

**Note 2. Profit from Ordinary Activities (continued)**

Circadian realised a gain of $26,452,624 on the disposal of its interest in Axon (net consideration of $28,385,478 less cost of investment of $1,932,854).

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

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

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

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

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

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

The post-capital gains tax status of the Axon shares (i.e. the 91% which originally had a pre-CGT status), together with the April 2004 capital gains tax (CGT) amendment, effectively eliminated the tax liability on disposal of the company's entire holding of Axon shares and subsequently the Molecular Devices shares.

*31 December 2003*:

The prior period sale relates to 6,000,000 ordinary shares in Metabolic Pharmaceuticals Limited, sold on 23 October 2003.

| | **Consolidated** | |
|---|---|---|
| | **31 December 2004 $** | **31 December 2003 $** |
| **Write-back of provision for diminution of investments:** | | |
| - Provision for diminution of investment in Amrad Corporation Ltd to reflect period end market value (a) | - | 3,109,104 |
| - Provision for diminution of investment in options to reflect period end market value | - | 130,193 |
| | - | 3,239,297 |

(a) The profit for the half-year ended 31 December 2003 includes a gain of $3,109,104 in the book value of the consolidated entity's shareholding in Amrad Corporation Limited ("Amrad") reflecting the increase in Amrad's share price from 60 cents at 30 June 2003 to 71 cents at 31 December 2003. Accordingly, the unrealised provision for diminution in the book value of this holding had decreased from $6,031,217 to $2,922,113. During the half-year ended 31 December 2004, there was an unrealised loss recognised with respect to the company's investment in Amrad. Refer to "Expenses and Losses" below.

**Note 2. Profit from Ordinary Activities (continued)**

| | Consolidated | |
|---|---|---|
| | **31 December 2004** | **31 December 2003** |
| **Expenses and Losses:** | **$** | **$** |
| Investing expenses: | | |
| - Provision for diminution of investments in Amrad Corporation Limited and Avexa Limited to reflect period end market value (a) | 1,130,583 | - |
| - Provision for diminution of investment in options to reflect period end market value | 131,191 | - |
| - Write-down of other investments to reflect period end market value | 4,853 | 6,933 |
| Total | 1,266,627 | 6,933 |
| Depreciation of: | | |
| - Equipment and furniture | 6,332 | 9,348 |
| - Leasehold improvements | 4,644 | 4,631 |
| | 10,976 | 13,979 |
| Employee benefits | 55,185 | 53,412 |
| Operating lease rentals | 37,788 | 37,788 |

(a) The current period's result is after an unrealised loss of $1,130,583 in the combined book values of Circadian's shareholdings in Amrad Corporation Limited ("Amrad") and Avexa Limited ("Avexa"). In September 2004 Amrad demerged its anti-infectives drug portfolio into a new corporate entity, Avexa Limited, which was listed on the Australian Stock Exchange whereupon Amrad shareholders became entitled to 1 ordinary share in Avexa for every 2 ordinary shares held in Amrad (at a record date) and Amrad itself retained a 19.99% interest in the demerged entity. This unrealised loss reflects the decrease in both Amrad's and Avexa's respective share prices during the period under review. The unrealised provision for diminution in the combined book value of these holdings has increased from $4,900,634 to $6,031,217.

**Note 3. Investments in Listed Companies (included in Other Financial Assets – Non-Current)**

Long term investments are classified as non-current assets and are carried at the lower of cost or market valuation, as described below. Interests in non-subsidiary, non-associated corporations are included in investments at the lower of cost or recoverable amount.

| | **Direct Ownership Interest** | | **Diluted Ownership Interest** | | **Book Value** | | **Market Value (i)** | |
|---|---|---|---|---|---|---|---|---|
| **Listed Investments** | **Dec 2004 %** | **Jun 2004 %** | **Dec 2004 %** | **Jun 2004 %** | **Dec 2004 $** | **Jun 2004 $** | **Dec 2004 $** | **Jun 2004 $** |
| Metabolic Pharmaceuticals Ltd | 20.8 | 21.0 | 20.5 | 20.5 | 5,000 | 5,000 | 61,445,767 | 45,604,280 |
| Amrad Corporation Ltd | 22.5 | 22.0 | 21.8 | 21.4 | 13,849,646 | 18,089,333 | 13,849,646 | 18,089,333 |
| Avexa Limited | 17.6 | - | 17.3 | - | 3,109,104 | - | 3,109,104 | - |
| Axon Instruments Inc | - | 15.2 | - | 13.8 | - | 1,932,854 | - | 27,929,316 |
| Antisense Therapeutics Ltd (ii) | 20.4 | 20.4 | 19.2 | 19.2 | 1,864,765 | 1,864,765 | 9,054,600 | 10,503,336 |
| Antisense Therapeutics Ltd (Options) | | | | | 956,422 | 1,087,614 | 956,423 | 1,175,603 |
| Optiscan Imaging Ltd | 6.9 | 7.9 | 6.6 | 7.5 | 361,132 | 361,132 | 2,229,500 | 2,293,200 |
| Total | | | | | 20,146,069 | 23,340,698 | 90,645,040 | 105,595,068 |

**Note 3. Investments in Listed Companies (included in Other Financial Assets – Non-Current) (continued)**

(i) The market value, as represented by the share price at period end, does not take account of any capital gains tax or selling costs that may be applicable on the disposal of these investments.

(ii) The consolidated entity's total undiluted interest in Antisense Therapeutics, including its indirect interest in Antisense Therapeutics through its investment in Syngene Limited, amounted to 27% at period end, representing a market value of $11,937,153 (book value $1,964,136).

| | Consolidated | |
|---|---|---|
| | **6 months to 31 December 2004 $** | **12 months to 30 June 2004 $** |
| **Note 4. Contributed Equity** | | |
| Contributed equity at beginning of the period | 48,396,484 | 48,885,731 |
| Shares issued during the period: | | |
| - employee share scheme (i) | 20,000 | - |
| Shares cancelled during the period: | | |
| - shares bought back (ii) | - | (485,735) |
| - transaction costs | - | (3,512) |
| Return of capital to shareholders (b) | (15,247,308) | - |
| Contributed equity at end of period | 33,169,176 | 48,396,484 |

| | | |
|---|---|---|
| *(a) Movement in Contributed Equity for the period:* | **No.** | **No.** |
| Balance of number of shares at beginning of period | 40,114,498 | 40,333,537 |
| Shares issued during the period (i) | 10,000 | - |
| Shares bought back during the period (ii) | - | (219,039) |
| Balance of number of issued shares at end of period | 40,124,498 | 40,114,498 |

(i) On 26 August 2004, 10,000 shares were issued to an employee as a result of options exercised to purchase ordinary shares in the company at an exercise price of $2.00 per share.

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

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

To the year ended 30 June 2004, Circadian bought back 219,039 fully paid ordinary shares representing 0.5% of total issued ordinary shares. These shares were bought-back at an average cost of $2.23 per share (before transaction costs) for the period from 1 July 2003 to the conclusion of the buy-back period on 23 October 2003 (an average cost of $1.59 per share for the whole buy-back period). The total cost of the buy-back for the prior year period, including transaction costs, was $489,247, which was debited to the contributed equity account.

On 23 October 2003, the last day of the buy-back period, the market value of the company's listed share portfolio and cash equated to $3.18 per Circadian share, whereas the Circadian share price was $2.30 representing a 28% discount (88 cents per share) to this value.

**Note 4. Contributed Equity (continued)**

*(b) Return of capital to shareholders:*

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

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

The total distribution amounted to $20.1 million.

Circadian obtained a Class Ruling from the Australian Taxation Office indicating that, under this distribution, the return of capital component of 38 cents will not be a dividend for income tax purposes. The Record Date for the 50 cents per share distribution was 15 October 2004 and payments were mailed out on 29 October 2004.

| | **Consolidated** | |
|---|---|---|
| | **6 months to 31 December 2004 $** | **12 months to 30 June 2004 $** |
| **Note 5. Retained Profits/Accumulated Losses** | | |
| Accumulated losses at the beginning of the period | (8,092,257) | (13,894,868) |
| Net profit | 26,746,745 | 5,802,611 |
| Unfranked dividend (i) | (4,814,940) | - |
| Retained profits/(accumulated losses) at the end of the period | 13,839,548 | (8,092,257) |

(i) See Note 4(iii) regarding the return of capital to shareholders.

**Note 6. Subsequent Event**

Subsequent to period end, the combined market value of Circadian's shareholding in Amrad Corporation Limited and Avexa Limited increased by $1,059,922 to $18,018,672. The increase in market value of these investments since period end is not reflected in the financial report.

**Note 7. Segment Information**

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

**Note 9. Contingent Liabilities & Contingent Assets**

Since the last annual reporting date, there has been no material change of any contingent liabilities or contingent assets, these remain at $nil respectively.

**Note 10. Impact of Adopting AASB Equivalents to IASB Standards**

Circadian Technologies Limited is in the process of transitioning its accounting policies and financial reporting from current Australian Standards to Australian equivalents of International Financial Reporting Standards (IFRS). The company has allocated internal resources to identify and assess the key areas that will be impacted

**Note 10. Impact of Adopting AASB Equivalents to IASB Standards (continued)**

by transition to IFRS. These key areas have been prioritised based on likelihood of material impact. The Board of Directors is overseeing the progress of this transition to IFRS. Expert advice has been and may be sought as required to assist the company in the interpretation of pending AASB's (Australian equivalents of IFRS).

As Circadian Technologies has a 30 June year end, priority has been given to considering the preparation of an opening balance sheet in accordance with AASB equivalents to IFRS as at 1 July 2004. This will form the basis of accounting for Australian equivalents of IFRS in the future, and is required when Circadian Technologies prepares its first fully IFRS compliant financial report for the year ended 30 June 2006.

Set out below, and as previously reported in Circadian's 2004 annual report, are the key areas where accounting policies will change and may have an impact on the financial report of Circadian Technologies Limited. At this stage the company has not been able to reliably quantify the impacts on the financial report.

*Recognition and Measurement of Financial Instruments*

Under AASB 139 *Financial Instruments: Recognition and Measurement*, Circadian's investments in non-subsidiary, non-associated companies would be classified as "available-for-sale financial assets" except for its investment in listed options, which would be classified as "financial assets at fair value through profit or loss".

AASB 139 requires "available-for-sale" financial assets to be measured at their fair values except for "investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, which shall be measured at cost".

AASB 139 requires fair value adjustments to "available-for-sale" equity instruments, including upward and downward adjustments, to be recorded in equity, except where downward adjustments may be considered a "permanent" impairment. Permanent impairment of "available-for-sale" equity instruments is to be recorded in the profit and loss. If the conditions that led to a permanent impairment are subsequently determined to no longer exist, reversal of the impairment loss must be recorded against equity.

Under the standard, the group's investments in options would be carried at fair value with reference to an available market price. Fair value adjustments to derivative instruments, including upward and downward adjustments, would be recorded in the profit and loss.

The application of AASB 139 will result in a change in the entity's current accounting policy, which is to account for interests in non-subsidiary, non-associated corporations at the lower of cost and market valuation.

Under the new policy, Circadian's investments in "available-for-sale" equity instruments will be recorded in the balance sheet at their fair values (quoted market price), which in total is likely to be significantly higher in value than the balance recorded in accordance with current policy (based on such investments in existence at 30 June 2004).

Fair value adjustments to "available-for-sale" equity instruments, including upward and downward adjustments, are to be recorded in equity, except where downward adjustments may be considered a "permanent" impairment. Fair value adjustments to investments in listed options will be recorded in the profit and loss.

Reliable estimation of the future financial effects of this change in accounting policy is impracticable because future fair values, number of equity instruments which may be owned and the conditions under which impairment will be assessed are not yet known.

*Share based Payments*

Under AASB 2 *Share based Payments,* the company will be required to determine the fair value of options issued to employees as remuneration and recognise an expense in the Statement of Financial Performance. This standard is not limited to options and also extends to other forms of equity based remuneration. It applies to all share-based payments issued after 7 November 2002, which have not vested as at 1 January 2005. This will result in the recognition of expenses and a reduction in future profits. Reliable estimation of the future financial effects of this change in accounting policy is impracticable as the details of future equity remuneration plans are unknown.

**Note 10. Impact of Adopting AASB Equivalents to IASB Standards (continued)**

*Income Taxes*

Under the Australian equivalent to IAS 12 *Income Taxes* (AASB 112), the company will be required to use a balance sheet liability method, which focuses on the tax effects of transactions and other events that affect amounts recognised in either the Statement of Financial Position or a tax-based balance sheet. The most significant impact may be the recognition and/or disclosure of a deferred tax liability in relation to the fair value adjustments which will be made to investments in listed equity instruments (as at 31 December 2004 the total fair value of these assets was greater than their cost). Current accounting standards do not require the recognition of the capital gains effects of incremental fair value adjustments.

Further, AASB 112 requires the recognition of a deferred tax asset (for temporary differences and for the carryforward of unused tax losses) provided that it is probable that an entity will earn sufficient taxable profit in future periods to benefit from a reduction in tax payments / utilise unused tax losses. This “probability” test in determining recognition of tax assets differs from current Australian accounting standards which require there to be virtual certainty of realisation of such assets. Conditions under which the probability test will be applied are not yet known, and accordingly it is not known whether tax assets may be recorded in the financial report of the group.

Deferred tax liability recognition on fair value movements of available-for-sale investments will be recorded in equity, and therefore will not impact profit and loss.

*Impairment of Assets*

Under AASB 136 *Impairment of Assets* the recoverable amount of an asset is determined as the higher of net selling price and value in use. This will result in a change in the group’s current accounting policy, which determines the recoverable amount of an asset based on its expected net cash flows, which have not been discounted to their present value. Reliable estimation of the future financial affects of this change in accounting policy is impracticable because the conditions under which impairment will be assessed are not yet known.

**Directors' Declaration**

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

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity:
   (i) give a true and fair view of the financial position as at 31 December 2004 and the performance for the half-year ended on that date of the consolidated entity; and
   (ii) comply with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

___________________________

Leon Serry
Director

___________________________

Sir Peter Derham
Director

Melbourne
1 February 2005

## OTHER INFORMATION

### NTA backing

| | Consolidated | |
|---|---|---|
| | Current period | Previous corresponding period |
| Net tangible asset backing per ordinary security | $1.21 | $1.11 |

### Status of review of accounts

The financial report for the half-year ended 31 December 2004 has been reviewed. The review report is included with the financial report.