



ADVANCED
NANOTECHNOLOGY
LIMITED ACN 079 845 855

2005 CONCISE FINANCIAL REPORT





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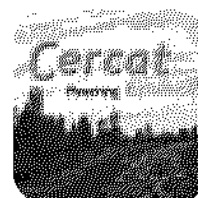


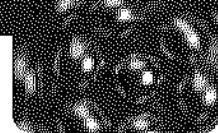
IMPORTANT INFORMATION FOR MEMBERS ABOUT THIS CONCISE REPORT

The Directors' Report, Concise Financial Report and Auditor's Statement contained within this document represent a Concise Report.

The full financial report of Advanced Nanotechnology Limited for the financial year ended 30 June 2005 and the Auditor's Report thereon will be sent, free of charge, to members upon request. Members wishing to receive the full financial report and Auditor's Report may arrange delivery by calling +61 (8) 9458 0800 or by visiting our website at www.advancednanotechnology.com.

The Concise Report contained within this document has been derived from the full financial report of Advanced Nanotechnology Limited for the financial year ended 30 June 2005 and 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.





CHAIRMAN'S AND CEO'S REPORT

We are pleased to present our 2005 report to the shareholders of Advanced Nanotechnology Limited (Advanced Nano or the Company).

The 2005 financial year has been a momentous one for Advanced Nano, culminating in our February 2005 listing on the Australian Stock Exchange (ASX). Advanced Nano has now transitioned from a company predominately owned by its founding shareholders and the University of Western Australia, to that of a publicly listed company with over 700 shareholders today.

During 2005, the Company has achieved an increase in sales and, at the same time, has put the necessary organisational and capital infrastructure in place to position Advanced Nano for continued growth through development and commercialisation of its nanomaterials products.

Highlights for the year included:

- Sales to customers for the 2005 financial year totalled \$1,502,512, an increase of approximately 74% over the 2004 financial year sales of \$862,865. Revenue growth was achieved over all Advanced Nano product lines;
- Revenues for the Company's personal care products increased by 80% in comparison to the 2004 financial year (from \$399,549 to \$719,309) due to increasing overseas sales;
- Sales of the Company's industrial and environmental products over the full year increased by 69% from \$463,316 to \$783,203, due primarily to increased sales of Cercat™ cerium oxide dispersion to Oxonica plc, which is used as the active catalyst material in their Envirox™ fuel catalyst;
- Sales to customers in the second half of the 2005 financial year were \$965,946 or 80% higher, as compared to the \$536,566 in sales for the first half;
- First commercial sales were made of ZinClear®-S, silicone coated zinc oxide dispersions for personal care applications (August 2004);
- A selective buy back was completed of Samsung Corning Co. Ltd's 50% interest in Advanced Nano Technologies Pty Ltd (ANT) (January 2005); and
- The Company's initial public offering was completed, to raise a total of \$9,500,000 (February 2005). The Company was admitted to the official list of the ASX with trading in its shares commencing 24 February 2005.

Advanced Nano's 2005 financial results were in line with the Board's expectations. Advanced Nano's loss for the year was \$3,515,663, reflecting the Company's ongoing investment in its research and product development activities. Due to the change in ownership structure of Advanced Nano and ANT during the year, the 2005 loss is not directly comparable to the 2004 loss of \$2,284,966. Further commentary on our 2005 results is included on pages 8 and 9 in the Directors' Report.



Harold Clough (Chairman) and Paul McCormick (CEO)

As noted above, 2005 saw the conclusion of our joint venture with Samsung Corning as the joint venture company completed its mission of scaling up the patented mechanochemical process (MCPT™) nanopowder manufacturing technology. The Board of Directors would like to thank Samsung Corning for its support and valuable contribution over the last four years.

Production increased significantly during the 2005 financial year in response to the increase in customer orders across all four existing product lines. While our ability to meet customer demands has been challenged over the past year, we have now implemented an ongoing program of equipment upgrades and maintenance targeted at improving productivity, the benefits of which are starting to be realised. The Company continues to place significant resources into maintaining and improving the quality of its processes and products under the ISO 9001 quality system to ensure continuing customer satisfaction and to reduce costs.

Advanced Nano is also continuing to invest in equipment and infrastructure in order to ensure that we increase production capacity in line with customer requirements. While we have experienced some delays in our investment program during recent months, our activities are underway and we will continue to assess our ongoing investment in light of production volume expectations.

The plant expansion program is part of the Company's strategy to build a sustainable, profitable business for its existing nanomaterials products in order to contribute towards our investment in future development and commercialisation activities.

With the positive revenue growth achieved during the 2005 financial year, increase in production and the new products under development, the Directors believe that the Company is well positioned for continued growth in the 2006 and subsequent financial years.





Advanced Nano's commercialisation strategy continues to focus on developing high value, short time-to-market nanomaterials products which are expected to experience strong sustainable growth and where MCP™ nanopowders have a clear competitive advantage. Advanced Nano is implementing a two-pronged approach over the next year as we seek to expand our sales revenue by introducing existing products into new markets, and developing new products based on its MCP™ nanoparticles. One such product range currently being developed is in the area of industrial transparent functional coatings, which the Company believes is a key area of future potential growth.

Advanced Nano's first product in the industrial transparent coatings sector (NanoZ®) is being extended to NanoZ®-AQ, a water-based zinc oxide nano dispersion for the new generation of transparent, long-life, solvent-free, low-VOC (Volatile Organic Compounds) coatings. Concept samples of NanoZ®-AQ are being provided to selected Australian and overseas coatings manufacturers for testing and evaluation.

Advanced Nano is also developing Platyl™ ceramic coatings, the first of the Company's industrial coatings that incorporate the Company's platelet alumina, as commercialised in the Alusion® cosmetics product. Initial potential market applications are die coatings for casting and plastics forming, both of which are currently also being evaluated by external companies.

Both of the above developments represent examples of where the Company's first products to market have been enhanced for alternative applications or markets. This is a key strength of the Advanced Nano team and underscores the platform nature of our technology.

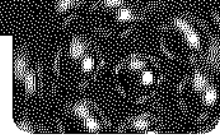
Finally, the Board would like to thank each and every one of our valuable employees. The path from research and development to the profitable manufacture and sale of our nanomaterials products is a challenging one, and the success of the Company to date is a testament to their ongoing efforts and commitment.

Harold Clough AO, OBE
Non-Executive Chairman

Paul McCormick
Chief Executive Officer



Advanced Nano's new leased premises at 10B Radium Street, Welshpool WA (approx. 2,500m²)



DIRECTORS' REPORT

Your Directors present their report on the Company for the year ended 30 June 2005.

CURRENT DIRECTORS AND SECRETARY

DIRECTORS

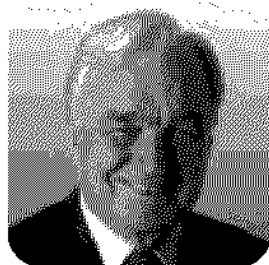
The names and details of Advanced Nanotechnology Limited (Advanced Nano or the Company) Directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Names, Qualifications, Experience and Special Responsibilities

Mr. William Harold Clough AO, OBE

(Non-Executive Chairman)

*BE(Hons), MS(Calif), Hon FIEAust, CPEng,
Hon DE(UWA), FTSE, FAICD, FAIM*



Harold Clough was appointed as a director on 10 January 2000. Presently, he is the group chairman and also serves on the Audit Committee.

Mr. Clough is highly distinguished in Australia's engineering industry. He joined the Clough family company in 1954 and served as Managing

Director until 1988. Mr. Clough's contribution to the development of Australia's trade relations and the advancement of the engineering profession has been extensively acknowledged by a range of prestigious awards including the Queen's Honours in 1977, 1979 and 1990. He was acknowledged as WA Citizen of the Year in Industry and Commerce in 1983, and won the Australasian Institution of Electrical Engineers James N Kirby Award, and the Institution of Engineers Australia Peter Nicol Russell Memorial Medal in 1993, as well as the Australian Institute of Company Directors (WA) inaugural gold medal for contributions to engineering, industry and commerce in 1994. In 1997, Mr. Clough received a Services to Construction Award from the Australian Contractors' Association, in recognition of his lifelong contribution to the construction industry. In April 2000, Mr. Clough was named one of Australia's Export Heroes and in 2005 was awarded the Sir Edward Weary Dunlop Medal for improving Australia-Asia relations.

Mr. Clough has also served as a director of the following other listed companies over the past three years:

- Clough Limited* - director since 12 March 1998 (date Clough Limited listed on the ASX).

* denotes current directorship

Mr. David Charles Griffiths

(Non-Executive Director)

BEC (Hons), MEd, FAICD



David Griffiths was appointed as a director on 11 December 2003. As well as being a non-executive director, Mr. Griffiths is also the chairman of the Audit Committee.

Mr. Griffiths was a Division Director of Macquarie Bank Limited from March 1999 to July 2005. In March 1999, Macquarie Bank

acquired Perth stockbroker, Porter Western Limited, where he was Executive Chairman. Prior to that, Mr. Griffiths has had over 20 years experience in senior financial executive roles in a wide range of industries. He has a Bachelor of Economics (Hons) from the University of Western Australia and a Master of Economics from the Australian National University. Mr. Griffiths is a member of the Senate of the University of Western Australia and is Chairman of their Strategic Resources Committee.

Mr. Griffiths has also served as a director of the following other listed companies over the past three years:

- ThinkSmart Limited* - director since 28 November 2000;
- Great Southern Plantations Limited* - director since 4 July 2005; and
- ARC Energy Limited* - director since 11 July 2005.

* denotes current directorship

Mr. Robert Michael Alexander Mangioni

(Non-Executive Director)

BA, LLB



Robert Mangioni was appointed as a director on 4 November 2004. Mr. Mangioni is a member of the Audit Committee as well as a non-executive director.

Mr. Mangioni is a founding partner of the Sydney based law firm Watson Mangioni. Mr. Mangioni has over 20 years experience in the practise of law in Australia and London. He holds a Bachelor of Arts and a Bachelor of Laws from the University of New South Wales. He has extensive experience in commercial law including corporate governance, market regulation, takeovers and public floats.

Mr. Mangioni has not served as a director of any other listed companies over the past three years.



Dr. Paul Gerard McCormick
(Chief Executive Officer)

BS, MS, PhD, FAICD



Paul McCormick is one of the originators of the MCP™ nanoparticle technology and founded Advanced Nano in 1997 to commercialise the MCP™ manufacturing process. In 2000, he led the successful negotiations that resulted in the establishment of Advanced Nano Technologies Pty Ltd (ANT), the joint venture with

Samsung Corning Co. Ltd. Subsequently, Dr. McCormick was appointed Chief Executive Officer of both Advanced Nano and ANT. Prior to joining Advanced Nano, Dr. McCormick was an internationally recognised researcher in the areas of mechanochemical processing and synthesis of nanopowders. His previous positions have been in senior research management roles in academia, including Director of both the Western Australian Centre for Microscopy and Microanalysis and the Research Centre for Advanced Mineral and Materials Processing.

Dr. McCormick has not served as a director of any other listed companies over the past three years.

COMPANY SECRETARY

Ms. Deana Cesari (Chief Financial Officer)

CA, B.Comm

Deana Cesari commenced employment with Advanced Nano on 8 June 2004. Ms. Cesari was appointed as Company Secretary on 4 August 2004 and continues in office at the date of this report. Ms. Cesari is responsible for the group's accounting, financial management and company secretarial functions. She has over 10 years experience in financial and commercial roles with prior positions including four years with KPMG; five years as group financial controller and company secretary with Orbital Engine Corporation Limited (Perth); and four years as commercial director and general manager of Orbital Fluid Technologies (Virginia, USA). Ms. Cesari holds a Bachelor of Commerce from the University of Western Australia, and is a member of the Institute of Chartered Accountants in Australia.

PAST DIRECTORS

Mr. Kimberly James Heitman (Non-Executive Director)

B.Juris, LLB, AACS

Kimberly Heitman was appointed as a director on 28 November 2002 and continued in office until 1 January 2005. Mr. Heitman is currently the Director of Legal Services at the University of Western Australia and serves on the boards of a number of public companies and incorporated associations.

Mr. Heitman has also served as a director of the following other listed companies over the past three years:

- AdultShop.com Limited* - director since 2000;
- Australian Domain Administration Limited* - director since 1999; and
- Tura Events Limited* - director since 2005.

* denotes current directorship

Mr. Eric Lindsay Bolto (Non-Executive Director)

BA, LLB

Eric (Mick) Bolto had 25 years experience as a senior business/corporate lawyer before moving fully to commerce and was previously a partner in Mallesons Stephen Jacques. He holds a Bachelor of Law and a Bachelor of Arts from the University of Western Australia. Mr. Bolto was the investment director for Hawkesbridge Private Equity, who acquired certain WA Local Government Superannuation Fund Pty Limited interests (past convertible note holder). He was appointed as director on 10 May 2004 and continued in office until his resignation on 1 September 2004.

Mr. Bolto is not currently serving as a director of any other listed companies, however he previously served as a director of the following other listed companies over the past three years:

- ERG Group Limited - Director and Deputy Chairman (1987 - 2003);
- Eftnet Limited - Chairman (2000 - 2002); and
- Chrome Global Limited - Chairman (2000 - 2002).

Mr. Haetack Choi (Non-Executive Director)

Haetack Choi is currently the R&D Director and Chief Technology Officer for the R&D Centre of Samsung Corning Co. Ltd. He was appointed as director on 9 July 2003 and continued in office until his resignation on 7 August 2004. Mr. Choi has not served as a director of any other listed companies over the past three years.

Mr. John Joseph McNally (Non-Executive Director)

John McNally is currently the Chief Executive Officer of the City of Melville and is a director of the WA Local Government Superannuation Fund Pty Limited (past convertible note holder). Mr. McNally was appointed as a director on 9 July 2003 and continued in office until his resignation on 27 July 2004. Mr. McNally has not served as a director of any other listed companies over the past three years.

Professor Robert Street AO (Non-Executive Director)

DSc, MIEE, FAA

Robert Street is an emeritus Professor of Physics at the University of Western Australia and also one of the original founders of the Company. Professor Street was appointed a director on 25 August 1997 and continued in office until his resignation on 19 July 2004. Professor Street has not served as a director of any other listed companies over the past three years.



INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY AND RELATED BODIES CORPORATE

As at 30 June 2005, the interests of the Directors in the shares of Advanced Nanotechnology Limited were:

	Number of Shares Held	Number of Options Held
WH Clough	5,000,000	250,000 (2)
DC Griffiths	1,500,000	250,000 (2)
RMA Mangioni	–	250,000 (2)
PG McCormick	3,531,157 (1)	5,911,157 (3)

(1) Dr. McCormick has the right to acquire 13,902,165 shares held by the University of Western Australia. As at the date of this report, Dr. McCormick has not exercised this right.

(2) Options were granted on 22 February 2005 and will vest on 22 February 2007.

(3) Options were granted on 28 June 2001 and became exercisable after the second anniversary of their issue, being 28 June 2003.

CORPORATE INFORMATION

CORPORATE STRUCTURE

Advanced Nanotechnology Limited is a company limited by shares that is incorporated and domiciled in Australia. Advanced Nano has prepared a consolidated financial report incorporating the results of ANT from 24 January 2005, the date which Advanced Nano obtained control (100%). Prior to this date, Advanced Nano held a 50% interest in ANT.

NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

The principal activities during the year of the entities within the consolidated entity were:

- Development and commercialisation of nanopowder and dispersion technologies; and
- Manufacture of nanomaterials and nanomaterials products.

There have been no significant changes in the nature of those activities during the year.

EMPLOYEES

The consolidated entity employed 26 employees as at 30 June 2005 (2004: 24 employees).

OPERATING AND FINANCIAL REVIEW

GROUP OVERVIEW

Advanced Nano was formed in 1997 (originally named Advanced Powder Technology Pty Ltd) to commercialise nanopowder technology originally developed by the University of Western Australia and subsequently in joint venture with Samsung Corning Co. Ltd, of Korea (2000 to January 2005).

Advanced Nano aims to be a broad-based nanomaterials company and believes its nanopowders have broad application and the potential to penetrate the emerging global nanotechnology markets in areas such as cosmetics, industrial coatings, pharmaceuticals, health care, catalysts and advanced ceramics.

Advanced Nano commenced commercial production of nanopowder products in 2002. The Company sells directly to Australian markets and has established a network of international distributors to provide a sales presence in key geographical regions. Advanced Nano currently sells four products into domestic and international markets in the areas of sunscreens, cosmetics, coatings and fuel catalysts. Advanced Nano has also reached proof of concept stage in a number of other applications.

Personal Care Division

Advanced Nano's personal care division currently encompasses two product lines - ZinClear® and Alusion®.

ZinClear® is a transparent dispersion of zinc oxide nanoparticles in various oils used in the personal care industry. ZinClear® overcomes the problem of skin whitening produced by conventional zinc oxide, enabling a cosmetically acceptable, SPF 30+ transparent sunscreen containing only zinc oxide as the UV absorber. ZinClear® has the potential for broad applications in daily wear cosmetics and skin care products.

Alusion® is a grade of alumina powder designed to mask wrinkles and fine lines by diffusing transmitted light, known as a soft focus effect. The uniform platelet shape also provides a silky feel and strong skin adhesion whilst remaining translucent on the skin to enhance natural skin tones.

Industrial & Environmental Division

Advanced Nano's industrial and environmental division currently includes two product lines - NanoZ® and Cercat™.

NanoZ®, a transparent UV blocking zinc oxide dispersion for the protection of timber and plastics, is Advanced Nano's first product used in industrial transparent functional coatings.

Cercat™ is a cerium oxide nanoparticle dispersion manufactured by Advanced Nano and supplied to Oxonica plc as the active catalyst material in their Envirox™ fuel catalyst.

DYNAMICS OF THE BUSINESS

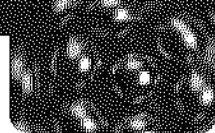
Advanced Nano's commercialisation strategy is focused on achieving early revenues by identifying high value, short time-to-market products which are expected to experience strong sustainable growth and where MCP™ nanopowders have a clear competitive advantage. In the larger, more difficult to penetrate markets, the Company is focussing its attention on the formation of strategic alliances with key partners.

The Company believes its competitive advantage stems from a number of areas including:

- Superior nanopowder and product quality;
- The use of industry standard raw materials and equipment;
- Strong intellectual property position providing barriers to entry by competitors; and
- A history of innovation and new product development.



- ***Small discrete particles.*** MCP™ produces nanoparticles with a low level of agglomeration (the particles do not clump together), satisfying quality requirements for applications that require such low levels of particle agglomeration;
- ***Narrow size distribution.*** The MCP™ technology inherently produces nanoparticles with a narrow size distribution. This means the nanoparticles are all approximately the same size, an important attribute required for many applications;
- ***Size and shape control.*** A key attribute of the MCP™ technology is that it allows control of particle size to meet customers' particle size requirements. By controlling surface chemistry it is also possible to produce particles with well defined shapes, such as rods or plates; and
- ***Cost.*** The MCP™ technology utilises standard industrial process equipment and standard industrial chemicals, which the Company expects will provide a relatively low cost base for its high quality products.



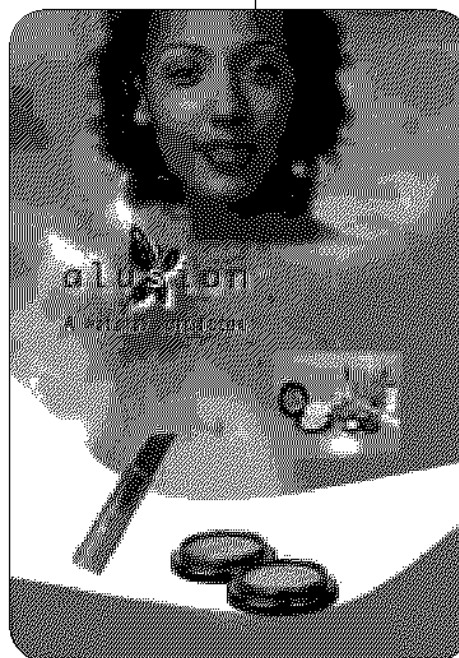
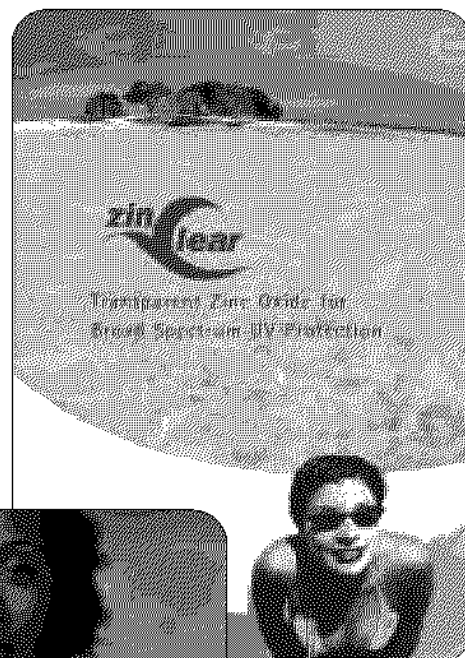
ZinClear®

Advanced Nano's ZinClear® zinc oxide dispersions combine high transparency with the natural broad spectrum UV protection and well recognised safety of zinc oxide on skin. ZinClear®'s market entry has been in the smaller, niche, all natural sunscreen market to allow the product to gain market acceptance in high value markets. The Company is seeing increasing take-up by sunscreen manufacturers developing products for the mineral based, low irritant, market. Business development activities focused on penetrating overseas markets and the wider range of SPF cosmetic market segments are meeting with success as evidenced by the strong increase in revenues during the past year.

Alusion®

To date, Advanced Nano's customers have used Alusion® primarily in the production of colour cosmetic products such as face powders, foundations, eye shadows, lipsticks, and some personal care products. Advanced Nano is utilising the unique combination of properties that Alusion® provides to position Alusion® as a new specialty powder aimed at translucent and/or sheer applications in the make-up and skin care markets. Powders which provide soft focus effects, adhesion and silky feel have made significant inroads into the colour cosmetics ingredients market due to their enhanced performance over the traditional talcs and micas. Since Advanced Nano launched Alusion® in Paris and New York in April/May 2003, more than fifteen companies worldwide have taken Alusion® through their product coding requirements with Revlon, Avon and Prestige all recently launching products incorporating Alusion®.

The Company believes the unique shape of Alusion® lends itself to a number of other applications including high temperature lubricants, wear resistant coatings, mould release coatings, ceramics and composites. Advanced Nano is currently developing Platy™ ceramic coatings which incorporate the Company's platelet alumina for potential market applications such as die coatings for casting and plastics forming.



Containers of Alusion® enroute to the United States

NanoZ®

NanoZ® is Advanced Nano's first product used in industrial transparent functional coatings. Transparent UV protective coatings to protect natural fibre, plastic and timber from the ravages of UV radiation presents a good opportunity for Advanced Nano's transparent UV absorbing powders such as zinc oxide, ceria and iron oxide.

UV absorbers such as Advanced Nano's zinc oxide incorporated into the coating can provide protection to the surface while retaining the natural beauty of the wood. Advanced Nano made its first sale in January 2004 to coatings manufacturer Bondall Marketing Pty Ltd following a joint R&D program including UV stability testing. Bondall has subsequently launched its second generation Monocel™ line which uses NanoZ® and is now incorporating NanoZ® across more of their product lines. Advanced Nano believes that NanoZ® wood finishes will provide

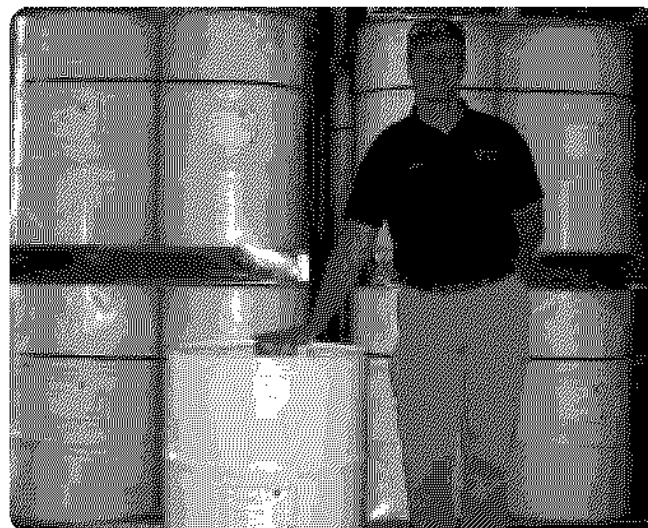


transparent inorganic UV absorber based coatings to meet the increasing demand for long lasting clear coatings.

Cercat™

Cercat™ is a cerium oxide nanoparticle dispersion manufactured by Advanced Nano and supplied to Oxonica plc as the active catalyst material in their Envirox™ fuel catalyst. Envirox™ is a fuel borne nanocatalyst which Oxonica stated yields significant improvements in diesel fuel combustion with resulting benefits in fuel consumption and emissions reduction.

Following a successful 12 month trial, the Stagecoach Group (a leading international transport operator) agreed in November 2004 to adopt Envirox™ for use across its entire UK and New Zealand fleet of 8,200 buses. Oxonica has also concluded trials in the Philippines which have led to the introduction of Envirox™ in March 2005 in a premium branded diesel fuel on the retail forecourt, by a consortium of independent petroleum companies representing around 20% of the Philippines market.



Advanced Nano's Production Manager, David Lee, with Cercat™ drums ready for shipment to Oxonica

Advanced Nano and Oxonica are negotiating a supply agreement under which it is envisaged that the manufacturing steps currently being carried out at Oxonica's UK facility will be transferred to Advanced Nano, enabling the Company to carry out the full manufacture of Envirox™. Oxonica listed on the Alternative Investment Market of the London Stock Exchange in July 2005, raising £7,100,000.

PERFORMANCE INDICATORS

Management and the Board monitor Advanced Nano's overall performance, from its implementation of the strategic plan through to the performance of the Company against operating plans and financial budgets.

Advanced Nano is currently developing a set of key performance indicators (KPI's) which will be used to monitor future performance of each of its Operations departments. KPI's are under development and review in the following areas, along with the identification of appropriate baselines for each:

- (i) Production – e.g. throughput/productivity, first time yield, delivery in full on time, and scrap reduction;
- (ii) Engineering – e.g. equipment availability, breakdown maintenance, and scheduled equipment maintenance;
- (iii) Quality – e.g. open audit issues and GA turnaround time; and
- (iv) Sales and logistics – e.g. actual to forecast sales, backorders, and shipping recovery.

OPERATING RESULTS FOR THE YEAR

Revenue

Total revenue from operating activities for 2005 was \$1,849,862, an increase of 84% over the 2004 total. Sales to customers for the 2005 financial year totalled \$1,502,512, an increase of approximately 74% over the previous year's sales of \$862,865. Revenue growth was achieved over all Advanced Nano product lines.



	2005 \$	2004 \$	% Change
Sales to customers			
Personal Care	719,309	399,549	Up 80%
Industrial & Environmental	783,203	463,316	Up 69%
	1,502,512	862,865	Up 74%
Bank interest and other revenue	347,350	142,366	Up 144%
Total revenue from operating activities	1,849,862	1,005,231	Up 84%

The 2005 full year's result reflected an increase in revenues progressively during the year. Sales to customers in the second half of the 2005 financial year were \$965,946 or 80% higher as compared to the \$536,566 sales for the first half.

Personal Care Division

Revenues for the Company's personal care products increased by 80% in comparison to the 2004 financial year (from \$399,549 to \$719,309) due to increasing overseas sales. The Company believes that the establishment of a strong network of overseas distributors has been critical to achieving and sustaining growth of the Company's personal care revenues.

The demand for the Company's personal care products increased significantly over the previous year as major US and Asian cosmetics companies launched new product lines containing Alusion® as a key ingredient. First sales of product to Japan marked an important marketing milestone. Revenue increases were also achieved in Europe and Australia with ZinClear®. Advanced Nano is currently receiving significant customer interest in its new ZinClear®-S range of dispersions for sunscreens.

Industrial & Environmental Division

Revenue associated with Advanced Nano's industrial and environmental products also increased significantly in 2005 (up 69% from \$463,316 to \$783,203) as Oxonica's customers adopt Envirox™.

Result and Expenses

Advanced Nano's loss for the year ended 30 June 2005 of \$3,515,663 was in line with the Directors' expectations and is consistent with the Company's ongoing investment in its research and product development activities.

Due to the change in ownership structure of ANT during the year, the 2005 loss is not directly comparable to the 2004 loss of \$2,284,966. The 2005 loss is a combination of (i) the Company's result; (ii) ANT's equity accounted losses for the period from 1 July 2004 to 24 January 2005 (50%); and (iii) ANT's consolidated losses for the period from 25 January 2005 to 30 June 2005 (100%). The 2004 loss represents the Company's loss plus ANT's equity accounted loss (50%) for the entire 2004 financial year.

Set out below is further information relating to the group's underlying expenses:

- Labour – following the conclusion of ANT's R&D Start grant project, key staff were transferred to Advanced Nano to enhance new product development activities. Advanced Nano's headcount increased to 26 permanent employees during 2005, following the above staff transfers, the strengthening of its executive team and the hiring of additional production support staff. Contract labour also increased along with production growth, and consultant expenditure increased in support of our overseas sales and marketing efforts;
- Operating costs – have increased in line with the rise in production. Repairs and maintenance costs also increased in light of higher production levels and to implement improvements in the reliability of Advanced Nano's plant and equipment;
- Occupancy – in December 2004, the Company entered into a three-year lease for additional premises in Welshpool WA to provide additional space for the expansion of its manufacturing facilities. Advanced Nano's corporate office is also located at this facility;
- Corporate overheads – the Company's finance and administration overheads have increased due to the Company's change in status to a publicly listed company and to enable its initial public offering. This included one-off items and increases in ongoing compliance costs. Advanced Nano does not expect to see significant increases in these mainly fixed expenses in the future; and
- Amortisation expenses – the Company has a significant annual expense associated with the amortisation of its patents, licenses and technologies. This expense includes the amortisation of both Advanced Nano and ANT intangible assets and will increase further in 2006 as the full year effect is seen upon the consolidated results (ANT's 2005 expense was consolidated from 25 January 2005 only).

SHAREHOLDER RETURNS

	2005 Cents per share	2004 Cents per share
Net assets per share	9.94	8.74
Net tangible assets per share	5.82	4.29
Loss per share	2.60	2.65

Net assets and net tangible assets per share have increased over the 2005 financial year, due primarily to the Company's capital raising activities in February 2005.

Advanced Nano listed on the Australian Stock Exchange on 24 February 2005. Since this time, the Company's share price has fluctuated between a high of 23.5 cents and a low of 8.5 cents, with a weighted average share price of 15.6 cents to 9 September 2005.



INVESTMENTS IN FUTURE PERFORMANCE

Operations

Production increased significantly over the 2005 financial year in response to the increase in customer orders across all four existing product lines. The Company has been meeting increased production demands through the extension of operating hours to a third shift, reduction in production cycle times via innovative process improvements, capital equipment purchases and improvements, and as a next step, the elimination of out-of-state outsourcing.

An ongoing program of equipment upgrades and maintenance targeted at improving productivity has been implemented, the benefits of which are starting to be realised. Equipment currently delivered and ready to be installed in the first expansionary stage includes new process equipment for ZinClear® processing. This enables all ZinClear® manufacturing to be brought in-house to reduce costs and lead time, and improve product quality. To implement the final production step in the manufacture of Envirox™, currently being carried out overseas, the Company has taken delivery of new process equipment which is ready for installation and commissioning.

Supporting the increasing production levels, strategic initiatives in raw material purchasing and supplier quality control are being developed and implemented. These initiatives, together with increasing levels of customer contact management, are allowing the Company to improve its capability in meeting customer requirements of quality and on-time delivery.

The Company continues to place significant resources into maintaining and improving the quality of our processes and products under the ISO 9001 quality system to ensure customer satisfaction and to reduce costs.

Product Development

The Company is focussing on the development of new nanomaterials products that exhibit the enhanced properties of the Company's MCP™ nanoparticles and address real market needs. Nano transparency, a key property of dispersed nanoparticles, enabling the full range of properties exhibited by certain opaque materials to be utilised in transparent products, has formed the basis of Advanced Nano's existing products.

Key product development highlights during the year included:

ZinClear®-S

Silicone coatings for zinc oxide nanoparticles have been developed that allow formulation advantages including higher particle concentrations while attaining reductions in viscosity and improving transparency. The "S" range of the ZinClear® line of products enables dispersion into a wider range of end-customer cosmetic products and a greater ease of formulation. First commercial sales of ZinClear®-S dispersions were achieved in the first quarter.

NanoZ®-AQ

The Company sees industrial transparent functional coatings based on its MCP™ nanoparticles as an important market for future growth. Advanced Nano's first product in this sector

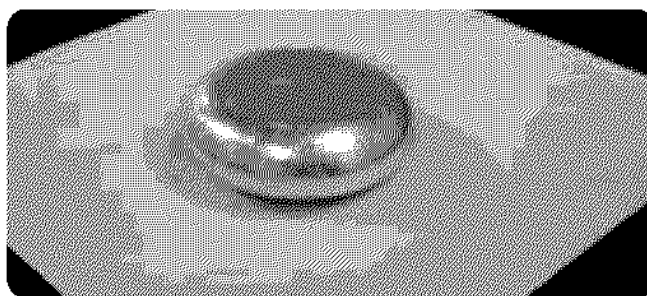


Amy Chang, Advanced Nano's laboratory technician, applying clear wood coating containing NanoZ®-AQ

NanoZ®, a transparent solvent based UV blocking zinc oxide dispersion for the protection of timber, is being extended to NanoZ®-AQ, a water based zinc oxide nano dispersion for the new generation of transparent long-life, solvent-free, low-VOC (Volatile Organic Compounds) coatings. Concept samples of NanoZ®-AQ are being provided to selected Australian and overseas coatings manufacturers for testing and evaluation.

Platyl™ ceramic coatings

Platyl™ coatings are the first of Advanced Nano's industrial coatings that incorporate the Company's platelet alumina, as commercialised in the Alusion® cosmetics product, to provide a combination of abrasion and chemical resistance, low adhesion and low friction properties. Advanced Nano's researchers have developed a coating process that bonds the alumina platelets with a ceramic binder. Initial potential market applications are die coatings for casting and plastics forming. The coating is currently being evaluated by a major European manufacturer of die casting equipment and Malaysian manufacturer of moulded rubber products. A patent application is in preparation.



Non-wetting characteristics of molten aluminium on Platyl™ coating

Patent Applications

Advanced Nano's patent activities for the year ended 30 June 2005 were as follows:

- September 2004 – provisional patent application lodged for low temperature sinterable zirconia ceramics;
- April 2005 – provisional patent application lodged for silicone coated metal oxide particles; and
- June 2005 – national phase entry for ANT's co-owned patent application "Process for the Production of Ultrafine Plate-like Alumina Particles".



REVIEW OF FINANCIAL CONDITION

Capital Structure

During the year, Advanced Nano undertook several capital raising activities, culminating in its initial public offering in February 2005. Details of these activities are as follows:

- On 25 August 2004, the Company raised additional capital of \$2,000,721 through the issue of new ordinary shares as part of a private placement;
- On 4 November 2004, pursuant to a resolution of shareholders, the Company underwent a capital reconstruction such that each ordinary share on issue was converted into 3,531.157 ordinary shares and options;
- On 17 February 2005, Advanced Nano issued 45,000,000 ordinary shares to the public, raising a total of \$9,000,000 pursuant to its initial public offering;
- The Company was admitted to the official list of the Australian Stock Exchange with trading in its shares commencing 24 February 2005; and
- On 4 March 2005, the Company issued a further 2,500,000 ordinary shares to the public, totalling \$500,000.

At 30 June 2005, Advanced Nano has two chattel mortgages totalling \$278,507. These mortgages are repayable in monthly instalments and bear interest at 8.762% and 9.526% respectively per annum. Security for the loans is as follows:

- (i) First registered mortgage debenture over the Company's assets and undertakings including uncalled capital and called but unpaid capital;
- (ii) Term deposit letters of set off totalling \$166,585 have been given by the Company.

Following the completion of the above capital raising activities, Advanced Nano believes it has a sound capital structure in place with low debt levels.

Treasury Policy

To date Advanced Nano's treasury function has consisted primarily of the investment of funds raised at the time of its initial public offering. The Company has invested these funds in a series of deposits at call with financial institutions. The treasury function is overseen by the Chief Financial Officer and is performed in line with the risk level approved in advance by Advanced Nano's Board of Directors.

Liquidity and Funding

As at 30 June 2005, Advanced Nano has cash assets of \$8,405,549, an increase from \$2,435,518 as at 30 June 2004.

As a result of the capital raising activities described earlier, the Company raised a total of \$10,556,549 (net of cash capital raising costs), predominantly as part of the initial public offering. The purposes of the Company's February 2005 initial public offer were as follows:

- To fund working capital requirements;
- To fund the expansion of Advanced Nano's nanopowder manufacturing facilities;

- To fund the development of new nanopowder products; and
- To fund the expansion of Advanced Nano's business development activities in national and international markets.

During the 2005 financial year, Advanced Nano's cash resources were used as follows:

- Cash outflows from operating activities - \$3,420,099;
- Payments for plant and equipment (net of sale proceeds) - \$820,427;
- Payments for patents and trademarks - \$50,784;
- Payments associated with the Company's investment in ANT and ANT's share buy-back - \$143,193; and
- Chattel mortgage payments - \$57,015.

With the completion of the Company's capital raising activities, the Directors believe that Advanced Nano has sufficient cash resources to fund the Company's current plans as described at the time of its initial public offering.

RISK MANAGEMENT

As with all businesses, the activities of Advanced Nano are subject to risks and there are many factors which may affect its operations and performance. The Board of Directors determines the Company's risk profile and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control.

The Company believes that its risk management policies will be achieved by implementation, throughout all parts of the Company's operations, of an effective risk management program including the following:

- Maintenance of quality management system based on ISO standards;
- Maintenance of internal control systems in order to provide management with accurate, timely and reliable operating and financial information;
- Conduct of operations and maintenance of records in accordance with Company policies and legislative requirements;
- Implementation of strategies to limit liability arising from Advanced Nano's operations by ensuring contractual arrangements do not assume unnecessary liabilities or give up rights and ensuring where possible, contractual arrangements transfer risks and liabilities;
- Monitoring and reporting to the Audit Committee and Board on significant circumstances and risk management issues which may affect Advanced Nano; and
- Management of insurance programs to acquire appropriate coverage at optimum premium levels.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with risks identified by the Board. These include the following:

- Implementation of Board approved operating plans and budgets; and
- Board monitoring of progress against these budgets.



LOSS PER SHARE

	2005
Basic loss per share (cents per share)	2.60
Diluted loss per share (cents per share)	2.60

Comparative information has not been disclosed as this report is the first financial report since the Company changed from a private company to a listed company.

DIVIDENDS

No dividends have been declared or paid during the financial year.

OPTIONS

At the date of this financial report (and at reporting date), there were 14,133,581 unissued ordinary shares under options. In addition, since the reporting date a further 6,313,590 unissued ordinary shares under options have been offered but are yet to be granted.

Option holders do not have any right, by virtue of the options, to participate in any share issue of the Company or any related body corporate or in the interest issue of any other registered scheme.

Shares issued as a result of the exercise of options

No shares were issued on the exercise of options during the financial year or between the end of the financial year and the date of this report.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 25 August 2004, the Company raised additional capital of \$2,000,721 through the issue of new ordinary shares as part of a private placement.

On 4 November 2004, pursuant to a resolution of shareholders, the Company underwent a capital reconstruction such that each ordinary share on issue was converted into 3,531.157 ordinary shares and options.

On 24 January 2005, the Company's 50% owned joint venture entity, ANT, underwent a selective buy back in relation to Samsung Corning Co. Ltd's 50% interest in the joint venture entity. Total consideration for the buy back was \$3,285,902, satisfied by the payment of \$1,035,902 in cash and the transfer of a 50% interest in certain intellectual property rights. Upon completion of this transaction ANT became a wholly owned subsidiary of Advanced Nano.

On 17 February 2005 (and as part of its initial public offering), the Company issued 45,000,000 ordinary shares to the public at 20 cents per share, totalling \$9,000,000.

On 24 February 2005, trading of the Company's shares on the Australian Stock Exchange commenced.

On 4 March 2005, the Company issued a further 2,500,000 ordinary shares to the public at 20 cents per share, totalling \$500,000.

SIGNIFICANT EVENTS AFTER BALANCE DATE

On 16 August 2005, the Company offered 6,313,590 options to acquire ordinary shares under its employee share option plan. These options will vest two years from the date of the Company's listing (vesting 24 February 2007). The expiry date for the options is 24 February 2010 and they may be exercised at an exercise price of 30.8 cents per option. As at the date of this report, these options have not been granted.

On 26 August 2005, the Company's Directors approved expenditure of up to \$200,000 for the next phase of Advanced Nano's plant expansion program.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

In parallel with its ongoing product development activities, Advanced Nano is currently expanding its sales and marketing activities to capitalise on the growing customer demand and to enter new markets for its current and future products. In light of the opportunities for its nanomaterials products and technology, the Company will also continue to grow its investment in product development.

ENVIRONMENTAL REGULATION

The Company's facilities are subject to various regulations including occupational health and safety, storage and handling of dangerous goods, Department of Environment registration, and disposal of effluents and waste. The Company's premises at 112 Radium Street, Welshpool are registered with the Department of Environment for chemical manufacturing under the Environmental Protection Regulations 1987. Operating a registered premise requires the Company to report and have approved any material changes to its registered facilities that may impact the environment. The Company has invested in systems and personnel to minimise the impact of its activities on the environment and, as the number of products and processes expand, will investigate applicability of relevant Environmental Protection Regulations and implement solutions to conform. During the 2005 financial year, the Company was not cited for any breach of Environmental Protection Regulations.

The Company also holds a licence from the Water Corporation relating to disposal of waste material from premises at 112 Radium Street, Welshpool and is monitored and tested by the Water Corporation. Testing carried out by the Water Corporation is used to set the cost of industrial waste disposal to sewer. Cost of disposal to sewer works on a sliding scale related to the type and quality of waste. The Water Corporation also makes tests to check that discharge to sewer meets its acceptance criteria. During the year, the Company's industrial waste disposal costs have fluctuated based upon the results of Water Corporation testing.

It is possible that current or future laws and regulations could require the Company to make substantial expenditures for preventive or remedial action, reduction of chemical exposure or waste treatment or disposal. There can be no assurance that the Company's operations, business or assets will not be materially and adversely affected by the interpretation and enforcement of current or future laws and regulations.



INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the year the Company paid a premium in respect of a contract insuring all Directors, Officers and employees of the Company against liabilities that may arise from their positions within the Company and its controlled entities, except where the liabilities arise out of conduct involving a lack of good faith. The Directors have not included details of the nature of liabilities covered or the amount of the premium paid in respect of the insurance contract as such disclosure is prohibited under the terms of the contract.

Advanced Nano has agreed to provide access to the books and records of the Company to the current Directors of the Company while they are officers and for a period of seven years from when they cease to be officers. The Company has agreed to indemnify, to the extent permitted by the Corporations Act, each Director in respect of certain liabilities that the Director may incur as a result of, or by reason of (whether solely or in part), being or acting as an officer of the Company. Advanced Nano has also agreed to use its reasonable commercial endeavours to maintain in favour of each Director a directors' and officers' policy of insurance for the period that they are an officer and for a period of seven years after the Director ceases to be an officer of the Company.

REMUNERATION REPORT

This report outlines the remuneration arrangements in place for directors and executives of Advanced Nano.

REMUNERATION PHILOSOPHY

The performance of the Company depends upon the quality of its directors and executives. To prosper, the Company must attract, motivate and retain highly skilled directors and executives. To this end, the Company ensures that its remuneration framework provides competitive rewards to attract high calibre executives and ensures, through its employee share option plan, that its executives' interests are aligned with those of its shareholders.

The remuneration framework is designed to ensure that the Company can achieve its strategic objectives and consequently achieve Advanced Nano's broader goal of creating value for shareholders. The remuneration framework takes into account:

- The capabilities and experience of the Directors and senior executives;
- The Directors' and senior executives' ability to manage the performance of areas of the Company's business;
- The Company's performance including earnings and overall returns to shareholders; and
- The amount of incentive within each Directors' and senior executives' remuneration.

The Company's remuneration framework is aligned to shareholders' interests as it has growth in shareholder wealth as an important component of its design and serves to attract and retain high calibre executives.

NON-EXECUTIVE DIRECTOR REMUNERATION

Objective

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

Structure

Under the Company's Constitution, each Director (other than the Chief Executive Officer or an executive director) may be paid remuneration for ordinary services performed as a Director. Under the ASX Listing Rules, the maximum fees payable to directors may not be increased without prior approval from the Company at a general meeting. Directors will seek approval from time to time as deemed appropriate.

The aggregate remuneration that may be paid to non-executive Directors is \$250,000. This remuneration may be divided among the non-executive Directors in such a fashion as the Board may determine. Notice of any proposed increase in the total amount of the remuneration payable to the non-executive Directors must be given to members in the notice covering the general meeting at which the increase is to be proposed. Directors will seek approval from time to time as deemed appropriate.

Executive Directors are full time employees of the Company. Dr. McCormick does not receive directors' fees in addition to his annual remuneration. Details of remuneration payable under the Executive Service Agreement for Dr. McCormick are set out on page 14.

The Directors may also be paid all traveling and other expenses properly incurred by them in attending meetings of the Directors or any committee of directors or general meetings of the Company or otherwise in connection with the execution of their duties as Directors. In addition, any Director who is called on to perform extra services or to make special exertions or to undertake any executive or other work for the Company beyond his ordinary duties or to go or to reside abroad or otherwise for the purposes of the Company may, subject to law, be remunerated either by a fixed sum or a salary as determined by the Directors. This sum may be either in addition to or in substitution for his share in the remuneration for ordinary services.

Non-executive directors are encouraged by the Board to hold shares in the Company (purchased by the Director on market). It is considered good governance for directors to have a stake in the Company on whose board he or she sits.

The remuneration of non-executive Directors for the period ending 30 June 2005 is detailed on page 14 of this report.

SENIOR MANAGER AND EXECUTIVE DIRECTOR REMUNERATION

Objective

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company and competitive by market



standards. The Company also ensures that its executives' interests are aligned with those of its shareholders through the operation of its employee share option plan.

Structure

Senior manager and executive director remuneration is currently made up of a fixed salary and participation in the Company's employee share option plan, the extent to which is at the discretion of the Board reflecting the past and current performance of that executive. Senior managers and executives may also be eligible for bonus payments from time to time at the discretion of the Board. The Board believes that at this stage of the Company's development and in light of the size of the Company and its executive team, that this is an appropriate remuneration structure.

In determining the level and make-up of executive remuneration, the Board has obtained external advice to ensure the Company provides a competitive and acceptable remuneration level and that the market value for executives and senior managers in similar companies were considered along with the work that they would be required to perform.

Agreements with Executive Director and Senior Executives

Advanced Nano has entered into Executive Service Agreements with its executive director and each of its senior executives (Agreement or Agreements).

Each Agreement has a term of three years (unless terminated earlier in accordance with the Agreement) with each employee undertaking not to engage in competitive conduct with Advanced Nano for the term of the Agreement and for a further period of two years. The Agreements may be terminated at any time by the employee by giving three months notice in writing. The Company may terminate the Agreements in accordance with the following provisions:

- (i) At any time after the third anniversary of the commencement date by giving two months notice in writing;
- (ii) In the event the executive becomes incapacitated by illness or accident, by giving two months notice in writing; or
- (iii) Immediately, if the executive commits any acts which detrimentally affect the group or in the event of material breach of the Agreement where the executive does not remedy the breach within 14 days of notice from the Company.

Further, if the Agreements are terminated by the Company as a direct result of a takeover, the Company must pay the executive the equivalent of the basic salary and all other entitlements under the Agreements for a period of the succeeding twelve months as if the term continued for a further period of twelve months as compensation instead of notice.

Details of each of these Agreements are as follows:

Executive	Position	Agreement Date	Commencement Date	Expiry Date	Remuneration
Paul McCormick	Chief Executive Officer	14 Dec 2004	24 Feb 2005	23 Feb 2008	\$210,000 ⁽¹⁾
Deana Cesari	Chief Financial Officer	14 Dec 2004	24 Feb 2005	23 Feb 2008	\$143,000 ⁽¹⁾
Mark Norman	Chief Operating Officer	17 March 2005	17 March 2005	16 March 2008	\$160,000 ⁽¹⁾

⁽¹⁾ Initial remuneration comprises base remuneration, inclusive of mandatory superannuation contributions and excludes the value of options issued. Details of remuneration paid during the year ended 30 June 2005 is provided on page 15 of this report, including the number of options offered in accordance with the above Executive Service Agreements.

Executive remuneration will be reviewed annually by the Board of Directors, taking into consideration companywide, division and individual performance, relevant comparative remuneration in the market and internal and, where appropriate, external advice on policies and practices.

DIRECTOR REMUNERATION

YEAR ENDED 30 JUNE 2005						
	Primary Benefits		Post Employment	Equity	Other	Total
	Salary & Fees	Salary Sacrifice	Superannuation	Options ⁽¹⁾	Bonuses	
WH Clough (Chairman)	65,055	–	–	21,300	–	86,355
DC Griffiths	33,027	–	2,727	21,300	–	57,054
RMA Mangioni	42,178	–	3,483	21,300	–	66,961
KJ Heitman	14,671	–	1,211	–	–	15,882
	154,931	–	7,421	63,900	–	226,252

**DIRECTOR REMUNERATION (continued)****YEAR ENDED 30 JUNE 2004**

The amount of director remuneration for the year ended 30 June 2004 was nil.

No other director has received any remuneration for the years ended 30 June 2005 or 30 June 2004 other than Dr. McCormick whose remuneration is included below.

REMUNERATION OF THE NAMED EXECUTIVES WHO RECEIVE THE HIGHEST REMUNERATION**YEAR ENDED 30 JUNE 2005**

	Primary Benefits		Post Employment	Equity	Other	Total
	Salary & Fees	Salary Sacrifice	Superannuation	Options ⁽²⁾	Bonuses ⁽³⁾	
PG McCormick ⁽⁴⁾	102,703	14,043	9,497	–	9,680	135,923
D Cesari	123,831	–	11,145	–	9,680	144,656
CM Norman ⁽⁵⁾	40,649	–	3,658	–	–	44,307
	267,183	14,043	24,300	–	19,360	324,886

YEAR ENDED 30 JUNE 2004

	Primary Benefits		Post Employment	Equity	Other	Total
	Salary & Fees	Salary Sacrifice	Superannuation	Options	Bonuses	
PG McCormick ⁽⁴⁾	48,549	28,820	4,721	–	–	82,090
D Cesari ⁽⁶⁾	6,246	–	562	–	–	6,808
	54,795	28,820	5,283	–	–	88,898

- (1) On 22 February 2005, the Company issued 250,000 options to each of the Company's three non-executive Directors (750,000 options in total). These options are subject to a two year escrow restriction and were issued upon the official quotation of the shares on the ASX (February 2005). Each option will have an exercise price of 30.8 cents and a term of five years, expiring on 21 February 2010. The issue or exercise of these options is not dependent on the satisfaction of any performance conditions as they were considered part of the director remuneration. The Directors believe that with a two year vesting period (options vesting 22 February 2007) this provides a longer term incentive for the Directors to achieve growth in shareholder wealth.
- (2) On 16 August 2005, the Company made an offer of 1,000,000 options each to Ms. Cesari and Mr. Norman (included in the total of 6,313,590 options offered to employees). These options will vest two years from the date of the Company's listing (vesting 24 February 2007). The expiry date for the options is 24 February 2010 and they may be exercised at an exercise price of 30.8 cents per option. These options have not been issued at the date of this report. The issue or exercise of these options is not dependent on the satisfaction of any performance conditions as they were considered part of the executive remuneration for the term of the relevant Executive Service Agreement. The Directors believe that with a two year vesting period (options vesting 24 February 2007) this provides a longer term incentive for the executives to achieve growth in shareholder wealth.
- (3) A one-time bonus was paid to Dr. McCormick and Ms. Cesari upon the listing of the Company.
- (4) In addition to the benefits paid by the group, Dr. McCormick also received a salary from Advanced Nano's joint venture entity, ANT, which did not form part of the group until it became a subsidiary on 24 January 2005. The benefits paid by ANT to Dr. McCormick for the period from 1 July 2004 to 24 January 2005 totalled \$66,939 (2004: \$118,030). These amounts have not been included in the above totals.
- (5) Mr. Norman commenced employment with Advanced Nano on 17 March 2005.
- (6) Ms. Cesari commenced employment with Advanced Nano on 8 June 2004.

There are currently no loans to executives and directors. There has been no sign-on or termination or retirement payments made to Directors or executives in the financial year. Directors and executives have not received any non-cash benefits from the Company other than as set out above.

OPTIONS GRANTED AS PART OF THE REMUNERATION FOR THE YEAR ENDED 30 JUNE 2005**YEAR ENDED 30 JUNE 2005**

Specified Directors	Grant Date	Number Granted	Vesting Date	Value of Option at Grant Date ⁽¹⁾	Number Exercised	Value of Option at Exercise Date	Value of Option at Date Lapsed	Percentage of Remuneration
WH Clough	22 Feb 05	250,000	22 Feb 07	8.52	Nil	N/a	N/a	24.7%
DC Griffiths	22 Feb 05	250,000	22 Feb 07	8.52	Nil	N/a	N/a	37.3%
RMA Mangioni	22 Feb 05	250,000	22 Feb 07	8.52	Nil	N/a	N/a	31.8%
		750,000						

- (1) Cents per option. Options granted as part of the Directors and executives emoluments have been valued using the Black-Scholes option pricing model, which takes account of factors including the option's exercise, the current volatility of the underlying share price, the risk free rate, current market price of the underlying share and the expected life of the option. See below for further details.

**Fair values of options**

The fair value of each option is estimated on the grant date using a Black-Scholes option pricing model with the following weighted average assumptions used for options granted during 2005.

	2005
Expected volatility	70%
Risk-free rate	5.49%
Expected life of option	3.5 years ⁽¹⁾
Exercise price	30.8 cents
Current share price at grant date	20 cents

(1) Being the mid point of the option life (5 years) and the non-exercisable period (2 years).

DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors held during the year and the number of meetings attended by each director) were as follows:

	Directors' Meetings		Audit Committee	
	Number Held ⁽¹⁾	Number Attended	Number Held ⁽¹⁾	Number Attended
WH Clough	14	14	1	1
PG McCormick	14	14	N/a ⁽²⁾	N/a ⁽²⁾
DC Griffiths	14	14	1	1
RMA Mangioni	11	11	1	1
KJ Heitman	8	8	-	-
EL Bolto	1	1	-	-
H Choi	-	-	-	-
JJ McNally	-	-	-	-
R Street	-	-	-	-

(1) Number of meetings held reflect the number of meetings during the time the Director was in office.

(2) Dr. McCormick is not a member of the Audit Committee due to his executive position within the Company. He is however invited to attend Audit Committee meetings.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The Directors received the following declaration from the auditors of Advanced Nanotechnology Limited:

"Auditor's Independence Declaration to the Directors of Advanced Nanotechnology Limited

In relation to our audit of the financial report of Advanced Nanotechnology Limited for the financial year ended 30 June 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young"

NON-AUDIT SERVICES

During the year Ernst & Young, the Company's auditors, performed certain non-audit services for the Company. Ernst & Young received or are due to receive a total of \$19,553 for the provision of non-audit services, such as review of quarterly ASX cash reporting and audit of grant receipts and expenditure.

The Directors have considered the non-audit services provided during the year and are satisfied that the services are compatible with, and did not compromise, the auditor independence requirements under the Corporations Act 2001 for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit Committee to ensure that they do not impact upon the integrity and objectivity of the auditor; and
- The non-audit services provided do not undermine the general principles relating to auditor independence as they did not involve reviewing or auditing the auditor's own work, acting in a management or a decision making capacity for the Company, or jointly sharing economic risks and rewards.

PROCEEDINGS ON BEHALF OF THE COMPANY

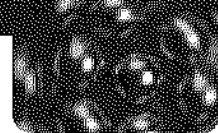
No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

This report is made in accordance with a resolution of Directors.

WH Clough (Chairman)
Director

PG McCormick (CEO)
Director

Perth, Western Australia
19 September 2005



CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Advanced Nano is responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business and affairs of Advanced Nano on behalf of shareholders by whom they are elected and to whom they are accountable.

The following Corporate Governance Statement sets out the extent to which Advanced Nano has followed the "Principles of Good Corporate Governance and Best Practice Recommendations" released by the Australian Stock Exchange Limited's (ASX) Corporate Governance Council in March 2003. Where a recommendation has not been followed, the following statement discloses this fact, together with the reasons for the departure.

Advanced Nano's corporate governance practices were in place during the period from the date of listing on the ASX (24 February 2005) to the date of this financial report.

The Company's Corporate Governance Statement is reviewed and updated at least annually. The various codes, policies and charters referred to in this statement are available for review on Advanced Nano's website, www.advancednanotechnology.com.

PRINCIPLE 1 - LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The Board's primary role is to protect and enhance long-term shareholder value by providing strategic guidance and direction to the Company and evaluating its performance against these objectives.

The Company's Corporate Governance Guidelines include a formal Board Charter, which discloses the specific functions of the Board and provides that the Board shall delegate responsibility for the day to day operations and administration of the Company to the Chief Executive Officer, including (but not limited to):

- The implementation of corporate strategies and performance objectives as established by the Board;
- Approval of capital and other expenditure within authority limits as determined by the Board from time to time;
- Appointment of senior management and employees other than those appointments specifically reserved to the Board; and
- Developing systems of risk management and internal control compliance records.

The Board monitors the performance of the Company through the review and establishment of key objectives and deliverables, including the review of monthly financial and operational activities.

PRINCIPLE 2 - STRUCTURE THE BOARD TO ADD VALUE

The Advanced Nano Board operates under a formal Board Charter, which sets out the functions of the Board, including:

- Charting the direction, strategies and financial objectives for Advanced Nano and its subsidiaries;
- Overseeing and monitoring organisational performance against these goals and objectives;
- Ensuring the significant risks facing the Company and its investments have been identified, and appropriate control, monitoring and reporting mechanisms are in place;
- Monitoring financial performance, including approval of the annual and half-year financial reports and liaising with the Company's auditors;
- Communicating with, and protecting the rights and interests of, all shareholders and other stakeholders;
- Appointing and assessing the performance of the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and other senior management;
- Ensuring that appropriate and effective remuneration packages and policies are implemented by the Company;
- Approving and monitoring major capital expenditure, capital management and significant business transactions;
- Formalisation and monitoring of corporate governance policies and codes of conduct;
- Enhancing and protecting the reputation of the Company; and
- Ensuring that the Board is comprised of individuals who are best able to discharge the responsibilities of Directors having regard to the law and the best standards of governance.

The names, qualifications, experience and expertise of each of the Company's Directors in office at the date of the annual report is included on pages 3 and 4 in the Directors' Report, along with the term of office held by each director. The composition of the Board is determined using the following principles:

- The Board is comprised of a minimum of three Directors and a maximum of ten;
- A majority of Directors should be independent;
- The composition of the Board is subject to shareholder approval. All nominations for appointment to the Board are reviewed by the current Board; and
- The Chairman of the Board should be an independent director and shall be elected by the Directors.



The Company has reviewed the independence of each Director, including (but not limited to) assessment of the level of their current shareholdings and any relationships with any material customers, suppliers or advisers. For the purposes of assessing independence, the Company has used a materiality threshold of \$200,000 in respect of customer, supplier or adviser relationships.

The Company has concluded that each of the three non-executive Directors, Mr. Clough (Chairman), Mr. Griffiths and Mr. Mangioni (representing a majority of the Board) meet the relevant criteria for independence.

Dr. McCormick is the Company's sole executive Director and is a founding shareholder of the Company. Dr. McCormick currently holds 3,531,157 shares in the Company, or 2.1% of the issued share capital. Dr. McCormick also has the ability to acquire further shares through his current Employee Share Option Plan participation (5,911,157 options currently held) and a call option deed with the University of Western Australia (right to acquire a further 13,902,165 shares). Should Dr. McCormick exercise all of these rights, his total shareholding could represent up to 23,344,479 ordinary shares or 13.9% of the Company's outstanding share capital.

The Advanced Nano Board generally meets on a monthly basis, and may also meet at such other times as may be necessary to address any specific significant matters that may arise. The meeting agenda and submissions are circulated in advance, with standing agenda items including strategic items, operations review, financial reports, and compliance, disclosure and governance matters.

Board meetings are attended by the Chief Financial Officer (who is also secretary of the Board) and Chief Operating Officer. Other employees and/or external parties are invited to attend any meeting of the Board (or part thereof) as appropriate.

As set out in the Board Charter, non-executive Directors have the right to seek independent professional advice in the furtherance of their duties as Directors of the Company at the Company's expense. The Chairman's prior approval of such expenditure is required.

Due to its current size, Advanced Nano's Board does not have a separate nomination committee. The Board of Directors currently performs all functions relating to Board nomination and membership.

PRINCIPLE 3 - PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Advanced Nano's reputation for honesty and integrity is valuable to the Company and its shareholders, and therefore must be maintained and protected at all times. The Directors and employees of the Company are therefore expected to conduct their business on behalf of the Company in accordance with the highest ethical standards and sound corporate governance.

In order to provide a framework within which decisions and actions in relation to ethical conduct can be evaluated, Advanced

Nano has developed a Corporate Code of Conduct which sets out the standards expected of the Directors and employees of the Company in the performance of their duties. The Code of Conduct also requires employees to report known or suspected events which involve questionable, dishonest or fraudulent activity and provides that all suspected breaches of the Corporate Code of Conduct will be investigated.

As part of Advanced Nano's Corporate Governance Guidelines, the Company has also established a specific policy related to dealing in the Company's securities including guidelines for buying and selling securities in the Company (Securities Dealing Policy). This policy includes, amongst other items, restrictions on dealing in the Company's securities during certain "closed periods" (such as the period from the end of the relevant financial year to the date of the preliminary announcement of the Company's annual results) and the dealing on considerations of a short-term nature. The Securities Dealing Policy also provides that Directors must not deal in any securities of the Company or related companies without advising the Chairman in advance and receiving clearance. Under this policy, the Chairman is required to advise and receive clearance from the Board.

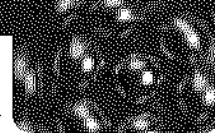
PRINCIPLE 4 - SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Advanced Nano has established an Audit Committee, the primary function of which is to assist the Board in discharging its responsibility to exercise due care, diligence and skill in relation to the following areas:

- Application of accounting policies and reporting of financial information to shareholders, regulators and the general public;
- Business and financial risk management and internal control systems, including business policies and practices;
- Corporate conduct and business ethics, including auditor independence and ongoing compliance with laws and regulations;
- Maintenance of an effective and efficient audit; and
- Appointment, compensation and oversight of the external auditor, and to ensure that the external auditor meets the required standards for auditor independence.

The Company's Audit Committee operates under a formal charter and is comprised of Advanced Nano's three non-executive Directors, Mr. Clough, Mr. Griffiths and Mr. Mangioni. The qualifications of the Audit Committee members are included on page 3 in the Directors' Report, along with the number of meetings of the committee and the number of meetings attended (page 16). All of the Audit Committee members are considered independent. Mr. Griffiths is the current Chairman of the Audit Committee.

Audit Committee members have direct access to the Company's external auditors and also have the authority to seek any information it requires to carry out its duties from any officer or employee of the Company.



The Chief Executive Officer and Chief Financial Officer are required to attend Audit Committee meetings, with other attendees invited at the request of the committee members. The Company's external auditors (currently Ernst & Young) are invited to attend at least two Audit Committee meetings per annum. The Audit Committee monitors the independence of its auditors and reviews their performance on an annual basis. The Audit Committee shall meet (at least annually) with the external auditors without the presence of management.

The Company's Code of Conduct also includes provisions detailing specific responsibilities of those employees and officers who are involved in the accounting and finance areas of the Company, or who influence the financial performance of Advanced Nano.

From 1 January 2005, the Board has required the Chief Executive Officer and the Chief Financial Officer to state in writing to the Board that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards. A statement on this basis was received in relation to the 2005 financial report.

PRINCIPLE 5 - MAKE TIMELY AND BALANCED DISCLOSURE

Advanced Nano is committed to complying with the continuous disclosure obligations of the Corporations Act and the ASX listing rules.

In order to ensure compliance with the requirements of the Corporations Act and the ASX rules relating to continuous disclosure of material information, Advanced Nano's Corporate Governance Guidelines includes a specific Continuous Disclosure Policy with established internal procedures for the dissemination and monitoring of that information.

The Chief Financial Officer is responsible for the implementation, operation and monitoring of this policy. This includes overseeing and coordinating disclosure of information to the ASX, educating employees on the Company's disclosure policies and procedures and communicating with the Chief Executive Officer and Directors on continuous disclosure matters.

PRINCIPLE 6 - RESPECT THE RIGHTS OF SHAREHOLDERS

Advanced Nano recognises and respects the right of its shareholders to be informed of matters, in addition to those prescribed by law, which affect their investment in the Company. The Company also encourages dialogue with its shareholders, with the Chief Executive Officer being the primary point of contact for shareholders requiring information about the Company.

The Company has developed and documented a Shareholder Communication Policy, which aims to ensure that the shareholders are informed of all major developments affecting the Company's state of affairs. This policy includes the provision of relevant information on the Company's website and plans to implement a subscription service to allow shareholders to obtain an email from the Company alerting them to a release made to the ASX. Any such emails are sent once confirmation has been received from the ASX of the release of the announcement. The

Company also has a practice of making relevant information available to shareholders by other means (post, fax, email) upon request.

Advanced Nano's 2005 annual general meeting will be its first as a listed company and the Board encourages participation of shareholders at its meetings. In accordance with the Corporations Act, the Board will provide its auditor with a notice of meeting and related communications. The Board will also request the external auditor to attend all future annual general meetings of the Company and be available for shareholder questions about the conduct of the audit and the preparation and content of the Auditor's Report, and about any other matter required by the Corporations Act.

PRINCIPLE 7 - RECOGNISE AND MANAGE RISK

The Board of Directors determines the Company's risk profile and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. The objectives of Advanced Nano's risk management program are contained in the Company's Risk Management Policy included in its Corporate Governance Guidelines.

Responsibility for establishing and maintaining effective risk management strategies rests with Advanced Nano's Chief Executive Officer, Chief Financial Officer and Chief Operating Officer, accountable to the Audit Committee of the Board. Each of these officers provides approval for all major items of expenditure, and is involved in the negotiation and agreement of all commercial contracts and commitments.

The Audit Committee reviews the business and financial risk management systems and internal control systems implemented by management to obtain reasonable assurance that the entity's assets are safeguarded and that the reliability and integrity of its financial information is maintained. The Board will review, at least annually, the effectiveness of the Company's risk management systems. The 2005 risk management review is currently planned for the latter half of 2005, during which the Company will confirm those aspects which should be addressed by the Board and those which are to be delegated to the Audit Committee.

Advanced Nano is a quality endorsed company under the ISO 9001:2000 quality standard. The Company has developed a set of policies and procedures (set out in the Company's Quality Manual) in relation to the Company's operations, the compliance of which is an essential part of each employee's responsibility to the Company and is referred to as such in the Company's Corporate Code of Conduct.

The Board recognises that no cost effective internal control system will preclude all errors and irregularities. The system is based upon written procedures, policies and guidelines, an organisational structure that provides an appropriate division of responsibility, and the selection and training of qualified personnel.



The Board requires that the Chief Executive Officer, Chief Financial Officer and Chief Operating Officer, at least annually, state to the Board in writing that they have evaluated internal controls over financial reporting and that there is in place a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

PRINCIPLE 8 - PERFORMANCE EVALUATION

The Chairman of the Board is responsible for the performance evaluation of the Board and its committees (namely the Audit Committee). At one meeting each year, the Board will evaluate and discuss its own performance as a whole and of each Director and Chairman individually. At the same time, the Board will also review the performance of the executive team. The Board considers the above process appropriate in light of the size of the Board.

The Company has also implemented an annual performance evaluation review process that takes place in June of each year. This includes the evaluation of all management and staff, along with the establishment of objectives and deliverables for the coming year. The annual performance review process is conducted by requiring staff to complete a self review form and then holding a meeting with the staff member to discuss their performance, key deliverables for the coming year, and any issues raised in the review form.

PRINCIPLE 9 - REMUNERATE FAIRLY AND RESPONSIBLY

The Board recognises that the performance of the Company depends upon the quality of its Directors and executives. To prosper, the Company must attract, motivate and retain highly skilled Directors and executives. To this end, the Company ensures that its remuneration framework provides competitive rewards to attract high calibre executives and ensures, through its employee share option plan, that its executives' interests are aligned with those of its shareholders.

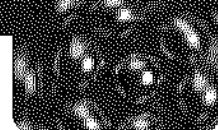
A detailed discussion of Advanced Nano's remuneration policies and structure is provided in the Remuneration Report set out on pages 13 to 16. Further details as to the current remuneration levels for Directors are also included in the Advanced Nano Board Charter which is available in the Corporate Governance section of the Company's website.

The Board does not have a remuneration committee as the Directors believe that the Board is not of a sufficient size to warrant the establishment of a remuneration committee at this time. Accordingly, the Board currently performs the functions of ensuring that appropriate and effective remuneration packages and policies are implemented within the Company, following recommendation by the Chief Executive Officer, Chief Financial Officer and Chief Operating Officer.

PRINCIPLE 10 - COMPANY'S CONDUCT AND STAKEHOLDERS

Advanced Nano's Corporate Code of Conduct provides that all dealings with customers, suppliers and external parties shall be conducted in a professional and courteous manner.

Advanced Nano also expects its employees to avoid any circumstances where their personal, financial or other interest may be in conflict (either directly or indirectly) with their responsibilities to the Company. Employees are required to disclose any such conflicts to their supervisor or manager, including any personal interests or obligations which could create any suspicion that actions they take or decisions they make for the Company might be influenced.



CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

Year ended 30 June	Note	2005 \$	2004 \$
Revenue from operating activities			
Sale of goods		1,502,512	862,865
Revenue from outside operating activities			
Bank interest		247,831	39,885
Foreign currency gains		–	43,076
Subsidies and grants		57,492	35,968
Proceeds from sale of assets		18,183	–
Other revenue		23,844	23,437
		347,350	142,366
Revenue from ordinary activities		1,849,862	1,005,231
Costs and expenses			
Salaries and oncosts		(1,761,331)	(487,248)
Depreciation and amortisation expenses		(735,892)	(548,621)
Repairs and maintenance		(345,113)	(65,944)
Consultancy expense		(322,871)	(357,872)
Changes in inventories of finished goods and work in progress		(206,994)	(115,264)
Rent and outgoings		(173,305)	(9,222)
Insurance expense		(165,832)	(96,925)
Directors' fees		(147,510)	–
Equipment rental expense		(146,657)	(173,587)
Employee benefits expense		(126,264)	(46,472)
Travel and accommodation expenses		(119,920)	(72,541)
Gas and electricity costs		(113,289)	(45,739)
Accounting and auditing expenses		(106,232)	(16,227)
Production consumables		(105,408)	(14,544)
Freight and courier costs		(96,861)	(83,972)
Legal fees		(93,111)	(69,349)
Share of joint venture loss accounted for using the equity method		(83,875)	(801,668)
Waste and water disposal		(80,397)	(30,512)
Borrowing costs expense		(34,287)	(223,476)
Decommissioning expense		(32,000)	–
Provision for doubtful debts		(9,626)	56,973
Other expenses from ordinary activities		(358,750)	(87,987)
(Loss) from ordinary activities before related income tax expense		(3,515,663)	(2,284,966)
Income tax expense		–	–
(Loss) from ordinary activities after related income tax expense		(3,515,663)	(2,284,966)
Share issue costs	3	(1,049,260)	(106,492)
Total expenses attributable to members of Advanced Nanotechnology Limited and recognisable directly in equity		(1,049,260)	(106,492)
Total changes in equity attributable to members of Advanced Nanotechnology Limited other than those resulting from transactions with owners as owners		(4,564,923)	(2,391,458)
Basic (loss) per share (cents per share)		(2.60)	
Diluted (loss) per share (cents per share)		(2.60)	

The above Consolidated Statement of Financial Performance should be read in accordance with the accompanying notes and the discussion and analysis on page 22.



DISCUSSION AND ANALYSIS

Total revenue from operating activities increased by 84% to \$1,849,862. Sales to customers for the 2005 financial year totalled \$1,502,512, an increase of approximately 74% over the previous year's sales of \$862,865. Revenue growth was achieved over all Advanced Nano product lines.

The 2005 full year's result reflected an increase in revenues progressively during the year. Sales to customers in the second half of the 2005 financial year were \$965,946 or 80% higher, as compared to the \$536,566 sales for the first half.

Revenues for the Company's personal care products increased by 80% in comparison to the 2004 financial year (from \$399,549 to \$719,309) due to increasing overseas sales.

Revenue associated with Advanced Nano's industrial and environmental products also increased significantly in 2005 (up 69% from \$463,316 to \$783,203) as Oxonica's customers adopt Envirox™.

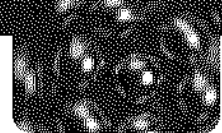
Other revenue increased by 144% to \$347,350 due primarily to increased interest income as the Company invested funds obtained from its capital raising activities.

Advanced Nano's loss for the year ended 30 June 2005 of \$3,515,663 was in line with the Directors' expectations and is consistent with the Company's ongoing investment in its research and product development activities.

Due to the change in ownership structure of ANT during the year, the 2005 loss is not directly comparable to the 2004 loss of \$2,284,966. The 2005 loss is a combination of (i) the Company's result; (ii) ANT's equity accounted losses for the period from 1 July 2004 to 24 January 2005 (50%); and (iii) ANT's consolidated losses for the period from 25 January 2005 to 30 June 2005 (100%). The 2004 loss represents the Company's loss plus ANT's equity accounted loss (50%) for the entire 2004 financial year.

Set out below is further information relating to the group's underlying expenses:

- Labour – following the conclusion of ANT's R&D Start grant project, key staff were transferred to Advanced Nano to enhance new product development activities. Advanced Nano's headcount increased to 26 permanent employees during 2005, following the above staff transfers, the strengthening of its executive team and the hiring of additional production support staff. Contract labour also increased along with production growth, and consultant expenditure increased in support of our overseas sales and marketing efforts;
- Operating costs – have increased in line with the rise in production. Repairs and maintenance costs also increased in light of higher production levels and to implement improvements in the reliability of Advanced Nano's plant and equipment;
- Occupancy – in December 2004, the Company entered into a three-year lease for additional premises in Welshpool WA to provide additional space for the expansion of its manufacturing facilities. Advanced Nano's corporate office is also located at this facility;
- Corporate overheads – the Company's finance and administration overheads have increased due to the Company's change in status to a publicly listed company and to enable its initial public offering. This included one-off items and increases in ongoing compliance costs. Advanced Nano does not expect to see significant increases in these mainly fixed expenses in the future; and
- Amortisation expenses – the Company has a significant annual expense associated with the amortisation of its patents, licenses and technologies. This expense includes the amortisation of both Advanced Nano and ANT intangible assets and will increase further in 2006 as the full year effect is seen upon the consolidated results (ANT's 2005 expense was consolidated from 25 January 2005 only).



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June	Note	2005	2004
		\$	\$
Current Assets			
Cash assets		8,405,549	2,435,518
Receivables		448,861	141,179
Inventories		360,297	160,262
Other		47,943	7,769
Total Current Assets		9,262,650	2,744,728
Non-Current Assets			
Cash assets		261,585	166,585
Investments accounted for using the equity method		–	2,370,466
Property, plant and equipment		1,248,559	603,258
Intangible assets		6,912,501	4,899,709
Total Non-Current Assets		8,422,645	8,040,018
Total Assets		17,685,295	10,784,746
Current Liabilities			
Payables		170,859	362,766
Interest bearing liabilities		33,317	33,317
Provisions		135,944	55,659
Other		345,987	421,107
Total Current Liabilities		686,107	872,849
Non-Current Liabilities			
Interest bearing liabilities		245,190	278,507
Provisions		79,722	–
Total Non-Current Liabilities		324,912	278,507
Total Liabilities		1,011,019	1,151,356
Net Assets		16,674,276	9,633,390
Equity			
Contributed equity	3	28,024,049	17,572,588
Option premium reserve		128,790	23,702
Accumulated (losses)		(11,478,563)	(7,962,900)
Total Equity		16,674,276	9,633,390

The above Consolidated Statement of Financial Position should be read in accordance with the accompanying notes.

DISCUSSION AND ANALYSIS

Consolidated net assets increased by \$7,040,886 to \$16,674,276 during the 2005 financial year.

The major movements in net assets during the year were as follows:

- Cash assets – increased by \$5,970,031, refer Consolidated Statement of Cash Flows on page 24;
- Receivables and inventories – increased by \$507,717 as sales to customers increased;
- Investment in joint venture and intangible assets – in January 2005, Advanced Nano obtained control (100%) of ANT, its previous joint venture entity (50%). Consequently, Advanced Nano's investment in ANT has been eliminated on consolidation. At the same time, intangible assets have increased due primarily to the value associated with ANT's (co-owned) MCP™ nanopowder manufacturing technology; and
- Property, plant and equipment – increased by \$645,301 (net of depreciation) due to investment in equipment and facilities in order to meet increased production demand.



CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 30 June	2005	2004
	\$	\$
Cash flows from operating activities		
Receipts from customers	1,347,654	959,738
Payments to suppliers and employees	(5,016,586)	[1,779,333]
	<u>(3,668,932)</u>	<u>(819,595)</u>
Grants received	37,492	35,968
Interest received	239,445	39,885
Borrowing costs	(28,104)	-
Net cash (outflow) from operating activities	<u>(3,420,099)</u>	<u>(743,742)</u>
Cash flows from investing activities		
Payments for property, plant and equipment	(838,610)	(325,793)
Payments for patents and trademarks	(50,784)	(29,103)
Payment for license	-	(749,840)
Investment in joint venture	(33,370)	-
Cash acquired on acquisition of subsidiary	10,177	-
(Loans to)/repayments from related parties	(120,000)	250,000
Proceeds from sale of property, plant and equipment	18,183	-
Net cash (outflow) from investing activities	<u>(1,014,404)</u>	<u>(854,736)</u>
Cash flows from financing activities		
Payment for security deposit	(95,000)	(166,585)
Proceeds from issues of shares	11,500,721	2,700,360
Share issue costs	(944,172)	(106,492)
Chattel mortgage finance	(57,015)	243,489
Net cash inflow from financing activities	<u>10,404,534</u>	<u>2,670,772</u>
Net increase in cash held	<u>5,970,031</u>	<u>1,072,294</u>
Cash at the beginning of the financial year	2,435,518	1,363,224
Cash at the end of the financial year	<u>8,405,549</u>	<u>2,435,518</u>

The above Consolidated Statement of Cash Flows should be read in accordance with the accompanying notes.

DISCUSSION AND ANALYSIS

As at 30 June 2005, Advanced Nano has cash assets of \$8,405,549, an increase from \$2,435,518 as at 30 June 2004.

Net cash outflows from operating activities were \$3,420,099. Receipts from customers increased by \$387,916 due to the increasing uptake of the Company's nanotechnology products. Payments to suppliers and employees increased by \$3,237,253 due to the Company's ongoing investment in its operations, and research and product development activities and also included \$277,081 in convertible note interest.

Net cash outflows from investing activities were \$1,014,404, predominately due the Company's investment in plant and equipment (\$838,610) and net cash outflows of \$143,193 associated with ANT's share buy-back.

Net cash inflows from investing activities were \$10,404,534, of which \$10,556,549 (net of share issue costs) was a result of the Company's capital raising activities. Payments of \$152,015 were made in relation to a security deposit on leased premises and chattel mortgage finance.



NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. CORPORATE INFORMATION

Advanced Nanotechnology Limited is a public company limited by shares, incorporated and domiciled in Australia. Its registered office is 108 Radium Street, Welshpool WA 6106.

A description of the nature of the entity's operations and its principal activities is included on page 5 in the Directors' Report.

Pursuant to a resolution of shareholders passed on 21 June 2004, the Company converted to a public company on 13 August 2004.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

This concise financial report has been prepared in accordance with the requirements of the Corporations Act 2001 and Accounting Standard 1039 Concise Financial Reports.

The full financial report has been prepared in accordance with the historical cost convention and on a going concern basis.

Changes in accounting policies and estimates

A description of the accounting policies adopted by the consolidated entity may be found in the consolidated entity's full financial report. The accounting policies adopted in the preparation of the financial report have been consistently applied by each entity in the consolidated entity.

Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

Principles of consolidation

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

Prior to 24 January 2005, the Company held a 50% interest in a joint venture entity called Advanced Nano Technologies Pty Ltd (ANT), who's principle activity was the development of nanopowder manufacturing technologies. The Company had a 50% participating interest in this joint venture and was entitled to 50% of its output.

On 24 January 2005, ANT underwent a selective buy back in relation to Samsung Corning Co. Ltd's 50% interest in the joint venture entity. Total consideration for the buy back was \$3,285,902, satisfied by the payment of \$1,035,902 in cash and the transfer of a 50% interest in certain intellectual property rights. Upon completion of this transaction, ANT became a wholly owned subsidiary of Advanced Nanotechnology Limited.

NOTE 3. EQUITY RECONCILIATION

Year ended 30 June		2005		2004	
	Issue Date	Number	\$	Number	\$
Opening balance		31,227	17,572,588	22,963	12,978,720
Share issue (conversion of convertible notes)	31-Mar-04	-	-	648	320,000
Share issue (conversion of convertible notes)	31-Mar-04	-	-	664	328,085
Share issue (conversion of convertible notes)	16-Apr-04	-	-	4,046	2,000,000
Share issue (private placement)	5-May-04	-	-	2,906	2,052,275
Share issue (private placement)	25-Aug-04	2,833	2,000,721	-	-
		34,060			
Capital reconstruction (3,531,157 to 1)	4-Nov-04	120,271,202	-	-	-
Share issue (pursuant to prospectus dated 10 January 2005)	17-Feb-05	45,000,000	9,000,000	-	-
Share issue (pursuant to prospectus dated 1 March 2005)	4-Mar-05	2,500,000	500,000	-	-
		167,771,202	29,073,309	31,227	17,679,080
Less transaction costs arising on share issue		-	(1,049,260)	-	(106,492)
Closing balance		167,771,202	28,024,049	31,227	17,572,588



NOTE 4. SEGMENT INFORMATION

(a) Segment products and locations

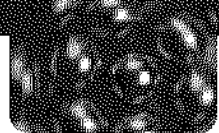
The consolidated entity is organised and managed separately according to the nature of the products and services they provide, with each segment offering different products and serving different markets.

The personal care segment produces and distributes a variety of dispersions and nanopowder products to the cosmetic and sunscreen industry. The industrial and environmental segment produces and distributes a variety of products used as fuel additives and for UV protection for timber products.

Geographically, the group operates in three predominant segments, being Australasia, America and Europe. All production operations and the head office and investment activities of the group also take place exclusively in Australia. Geographical segments indicate where the customers are located.

(b) Primary segment – Business segments

	Personal Care		Industrial & Environmental		Consolidated	
	2005	2004	2005	2004	2005	2004
	\$	\$	\$	\$	\$	\$
Revenue						
Sales to customers	719,309	399,549	783,203	463,316	1,502,512	862,865
Total segment revenue	719,309	399,549	783,203	463,316	1,502,512	862,865
Non-segment revenues						
Bank interest					247,831	39,885
Foreign currency gains					–	43,076
Subsidies and grants					57,492	35,968
Proceeds from sale of assets					18,183	–
Other revenue					23,844	23,437
Total non-segment revenue					347,350	142,366
Total revenue from ordinary activities					1,849,862	1,005,231
Results						
Share of JV (loss)					(83,875)	(801,668)
Unallocated expenses					(5,281,650)	(2,488,529)
Profit from ordinary activities before income tax expense					(3,515,663)	(2,284,966)
Income tax expense					–	–
Profit from ordinary activities after income tax expense					(3,515,663)	(2,284,966)
Assets						
Unallocated assets					17,685,295	10,784,746
Total assets					17,685,295	10,784,746
Liabilities						
Unallocated liabilities					1,011,019	1,151,356
Total liabilities					1,011,019	1,151,356
Other segment information						
Equity accounted assets included in segment assets					–	2,370,466
Acquisition of property, plant and equipment, intangible assets and other non-current assets					889,394	354,896
Depreciation					238,832	142,784
Amortisation					497,060	405,837



NOTE 4. SEGMENT INFORMATION (continued)

(c) Secondary segment – Geographic segments

	Australasia		America		Europe		Consolidated	
	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$
Segment revenue	538,271	242,208	27,035	147,946	937,206	472,711	1,502,512	862,865
Segment assets	17,685,295	10,784,746	-	-	-	-	17,685,295	10,784,746
Other segment information								
Acquisition of property, plant and equipment, intangible assets and other non-current assets	889,394	354,896	-	-	-	-	889,394	354,896

NOTE 5. CONTINGENT ASSETS AND LIABILITIES

There were no contingent assets or liabilities as at 30 June 2005 or as at the date of this report.

Guarantee

A cross guarantee was given by the Company to Vitrostone Limited, a director related company, for a chattel mortgage in the amount of \$271,913. This guarantee was released on 5 August 2004 following Vitrostone Limited's repayment of the chattel mortgage.

NOTE 6. EVENTS OCCURRING AFTER REPORTING DATE

On 18 August 2005, the Company offered 6,313,590 options to acquire ordinary shares under its Employee Share Option Plan. These options will vest two years from the date of the Company's listing (vesting 24 February 2007). The expiry date for the options is 24 February 2010 and they may be exercised at an exercise price of 30.8 cents per option. As at the date of this report, the options have not been granted.

On 26 August 2005, the Company's Directors approved expenditure of up to \$200,000 for the next phase of Advanced Nano's plant expansion program.

NOTE 7. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS

Advanced Nano and its subsidiary, ANT, will be required to comply with Australian equivalents to IFRS (AIFRS) for the financial year ended 30 June 2006. Conversion to AIFRS will result in many changes to accounting policies and therefore will impact on the financial performance and position of the Company.

Advanced Nano is in the process of transitioning its accounting policies and financial reporting from current Australian Accounting Standards (AGAAP) to AIFRS which will be applicable for the financial year ended 30 June 2006. Priority has been given to the preparation of an opening balance sheet in accordance with AIFRS as at 1 July 2004, Advanced Nano's transition date to AIFRS. This will form the basis of accounting

for AIFRS in the future, and is required when Advanced Nano prepares its first fully AIFRS compliant financial report for the year ended 30 June 2006.

As the AIFRS transition date (1 July 2004) occurred prior to the date Advanced Nano obtained control of its previously 50% joint venture entity, ANT (24 January 2005), certain impacts of the implementation of the AIFRS standards will be reflected in the Company's investment in joint venture entity (for balances and transactions prior to 24 January 2005). The impact on transactions occurring after 24 January 2005 will be reflected in the consolidated financial statements of Advanced Nano.

Set out below are the key areas where accounting policies are expected to change on adoption of AIFRS and our current estimate of the quantitative impact of the changes on total equity as at the date of transition and 30 June 2005 and on net profit for the year ended 30 June 2005.

The figures disclosed are management's best estimates of the quantitative impact of the changes as at the date of this report. The actual effects of transition to AIFRS may differ from the estimates disclosed due to:

- (i) ongoing work being undertaken by the AIFRS project team;
- (ii) potential amendments to AIFRS and interpretations thereof being issued by the standard-setters and IFRIC;
- (iii) emerging accepted practice in the interpretation and application of AIFRS and UIG Interpretations; and
- (iv) changes to the Company's and consolidated entity's operations.

Consequently, the final reconciliations presented in the first financial report prepared in accordance with AIFRS may vary materially from the reconciliations provided in this note.



NOTE 7. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (continued)

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

	Notes	Consolidated		Advanced Nano	
		30 June 2005 \$ (1)	1 July 2004 \$ (2)	30 June 2005 \$ (1)	1 July 2004 \$ (2)
Total equity under AGAAP		16,674,276	9,633,390	16,713,187	9,633,390
Adjustments to retained earnings (net of tax)					
Depreciation on assets acquired through grant funding	(i)	[69,869]	–	–	–
Written down value of development phase intangible assets	(ii)	157,271	109,620	162,227	109,620
Adjustment to investment in joint venture	(iii)	258,633	291,582	258,633	291,582
Reduction in amortisation of intangibles	(iii)	8,155	–	–	–
Recognition of share based payment expense	(iv)	[11,203]	–	(11,203)	–
		342,987	401,202	409,657	401,202
Adjustments to other reserves (net of tax)					
Recognition of share based payment expense	(iv)	11,203	–	11,203	–
		11,203	–	11,203	–
Total equity under AIFRS		17,028,466	10,034,592	17,134,047	10,034,592

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

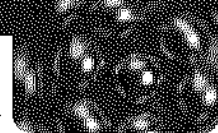
(2) This column represents the adjustments as at the date of transition to AIFRS.

Notes (i) to (iv) refer note 7(e) following.

(b) Reconciliation of net profit under AGAAP to that under AIFRS

	Notes	Consolidated	Advanced Nano
		30 June 2005 \$	30 June 2005 \$
Net profit as reported under AGAAP		(3,515,663)	[3,476,752]
Depreciation of grant assets net of recognised revenue	(i)	(69,869)	–
Amortisation of development phase intangible assets net of costs capitalised	(ii)	47,651	52,607
Additional share of joint venture loss	(iii)	(32,949)	(32,949)
Reduction in amortisation of intangibles	(iii)	8,155	–
Share based payment expense	(iv)	(11,203)	(11,203)
		(58,215)	8,455
Net profit under AIFRS		(3,573,878)	[3,468,297]

Notes (i) to (iv) refer note 7(e) following.



NOTE 7. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (continued)

(c) Reconciliation of Statement of Financial Position under AGAAP to that under AIFRS

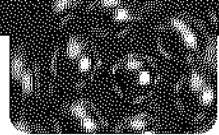
	CONSOLIDATED 1 July 2004			CONSOLIDATED 30 June 2005		
	AGAAP	Transition Impact	AIFRS	AGAAP	Transition Impact	AIFRS
Current Assets						
Cash assets	2,435,518	-	2,435,518	8,405,549	-	8,405,549
Receivables	141,179	-	141,179	448,861	-	448,861
Inventories	160,262	-	160,262	360,297	-	360,297
Other	7,769	-	7,769	47,943	-	47,943
Total Current Assets	<u>2,744,728</u>	<u>-</u>	<u>2,744,728</u>	<u>9,262,650</u>	<u>-</u>	<u>9,262,650</u>
Non-Current Assets						
Cash assets	166,585	-	166,585	261,585	-	261,585
Investments accounted for using the equity method	2,370,466	291,582	2,662,048	-	-	-
Property, plant and equipment	603,258	-	603,258	1,248,559	432,333	1,680,892
Intangible assets	4,899,709	109,620	5,009,329	6,912,501	153,716	7,066,217
Total Non-Current Assets	<u>8,040,018</u>	<u>401,202</u>	<u>8,441,220</u>	<u>8,422,645</u>	<u>586,049</u>	<u>9,008,694</u>
Total Assets	<u>10,784,746</u>	<u>401,202</u>	<u>11,185,948</u>	<u>17,685,295</u>	<u>586,049</u>	<u>18,271,344</u>
Current Liabilities						
Payables	362,766	-	362,766	170,859	-	170,859
Interest bearing liabilities	33,317	-	33,317	33,317	-	33,317
Provisions	55,659	-	55,659	135,944	-	135,944
Other	421,107	-	421,107	345,987	231,859	577,846
Total Current Liabilities	<u>872,849</u>	<u>-</u>	<u>872,849</u>	<u>686,107</u>	<u>231,859</u>	<u>917,966</u>
Non-Current Liabilities						
Interest bearing liabilities	278,507	-	278,507	245,190	-	245,190
Provisions	-	-	-	79,722	-	79,722
Total Non-Current Liabilities	<u>278,507</u>	<u>-</u>	<u>278,507</u>	<u>324,912</u>	<u>-</u>	<u>324,912</u>
Total Liabilities	<u>1,151,356</u>	<u>-</u>	<u>1,151,356</u>	<u>1,011,019</u>	<u>231,859</u>	<u>1,242,878</u>
Net Assets	<u>9,633,390</u>	<u>401,202</u>	<u>10,034,592</u>	<u>16,674,276</u>	<u>354,190</u>	<u>17,028,466</u>
Equity						
Contributed equity	17,572,588	-	17,572,588	28,024,049	-	28,024,049
Option premium reserve	23,702	-	23,702	128,790	11,203	139,993
Accumulated (losses)	(7,962,900)	401,202	(7,561,698)	(11,478,563)	342,987	(11,135,576)
Total Equity	<u>9,633,390</u>	<u>401,202</u>	<u>10,034,592</u>	<u>16,674,276</u>	<u>354,190</u>	<u>17,028,466</u>



NOTE 7: IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (continued)

(c) Reconciliation of Statement of Financial Position under AGAAP to that under AIFRS (continued)

	ADVANCED NANO 1 July 2004			ADVANCED NANO 30 June 2005		
	AGAAP	Transition Impact	AIFRS	AGAAP	Transition Impact	AIFRS
Current Assets						
Cash assets	2,435,518	-	2,435,518	8,377,381	-	8,377,381
Receivables	141,179	-	141,179	639,352	-	639,352
Inventories	160,262	-	160,262	360,297	-	360,297
Other	7,769	-	7,769	24,997	-	24,997
Total Current Assets	2,744,728	-	2,744,728	9,402,027	-	9,402,027
Non-Current Assets						
Cash assets	166,585	-	166,585	261,585	-	261,585
Investments accounted for using the equity method	2,370,466	291,582	2,662,048	-	-	-
Other financial assets	-	-	-	2,319,961	258,633	2,578,594
Property, plant and equipment	603,258	-	603,258	1,199,144	-	1,199,144
Intangible assets	4,899,709	109,620	5,009,329	4,545,098	162,227	4,707,325
Total Non-Current Assets	8,040,018	401,202	8,441,220	8,325,788	420,860	8,746,648
Total Assets	10,784,746	401,202	11,185,948	17,727,815	420,860	18,148,675
Current Liabilities						
Payables	362,766	-	362,766	167,686	-	167,686
Interest bearing liabilities	33,317	-	33,317	33,317	-	33,317
Provisions	55,659	-	55,659	135,944	-	135,944
Other	421,107	-	421,107	352,769	-	352,769
Total Current Liabilities	872,849	-	872,849	689,716	-	689,716
Non-Current Liabilities						
Interest bearing liabilities	278,507	-	278,507	245,190	-	245,190
Provisions	-	-	-	79,722	-	79,722
Total Non-Current Liabilities	278,507	-	278,507	324,912	-	324,912
Total Liabilities	1,151,356	-	1,151,356	1,014,628	-	1,014,628
Net Assets	9,633,390	401,202	10,034,592	16,713,187	420,860	17,134,047
Equity						
Contributed equity	17,572,588	-	17,572,588	28,024,049	-	28,024,049
Option premium reserve	23,702	-	23,702	128,790	11,203	139,993
Accumulated (losses)	(7,962,900)	401,202	(7,561,698)	(11,439,652)	409,657	(11,029,995)
Total Equity	9,633,390	401,202	10,034,592	16,713,187	420,860	17,134,047



**NOTE 7. IMPACT OF ADOPTING AUSTRALIAN
EQUIVALENTS TO IFRS (continued)**

(d) AIFRS Statement of Cash Flows for the year ended 30 June 2005

No material impacts are expected to the cash flows presented under AGAAP on adoption of AIFRS.

(e) Notes to reconciliations of AGAAP to that of AIFRS

(i) AASB 120 Government Grants

Under AASB 120 Government Grants, costs incurred in acquiring assets as part of a government grant funded project should be capitalised and depreciated over their useful lives. The government grant revenue relating to those assets should be brought to account as unearned income and matched against the depreciation expense over the asset's life. Previously, the group did not capitalise assets acquired through government grant funding, instead they were expensed in the year they were incurred and the government grant revenue relating to those assets was recognised in the same period.

The application of this standard is expected to result in the capitalisation by ANT of assets with a total written down value (including attributable grant income) of \$450,659 as at 1 July 2004. Depreciation expenses for these assets for the period from 1 July 2004 to 24 January 2005, less the grant income attributable to that depreciation is \$59,333. As the capitalisation of the assets took place prior to 24 January 2005, the impact of these adjustments is reflected in item (iii) below as part of the investment in joint venture.

The \$69,869 adjustment shown above represents depreciation expenses for these assets for the period from 25 January 2005 to 30 June 2005 (\$77,551) less the grant income attributable to that depreciation (\$7,682).

(ii) AASB 138 Intangible Assets

Under AASB 138 Intangible Assets, costs incurred in the development phase of the development of an internally generated intangible asset would be capitalised. To date, the group has expensed all research and development costs.

AASB 138 defines development costs as those which meet the following criteria for recognition as an asset:

- Technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Ability to use or sell the intangible asset;
- Availability of adequate technical, financial and other resources to complete the development and use or sell the intangible asset;
- Intention to complete the intangible asset and use or sell the asset;
- Ability of the intangible asset to generate probable future economic benefits; and
- Ability to measure reliably the expenditure attributable to the intangible asset during its development.

The impact of implementation of this standard is currently expected to be as follows:

- Capitalisation of development costs in the books of Advanced Nano of \$241,351 (\$157,287 as at 1 July 2004 and \$84,064 for the year ended 30 June 2005);
- Accumulated amortisation of capitalised development costs of Advanced Nano of \$79,124 (\$47,667 as at 1 July 2004 and \$31,457 in amortisation expenses for the year ended 30 June 2005);
- Capitalisation of development costs in the books of ANT of \$322,622. This adjustment will be reflected in Advanced Nano's investment in joint venture entity;
- Accumulated amortisation of capitalised development costs of ANT as at 1 July 2004 of \$57,611, and amortisation expenses for the period from 1 July 2004 to 24 January 2005 of \$13,132. These adjustments will be reflected in Advanced Nano's investment in joint venture entity;
- Unearned income in the books of ANT of \$132,505 as at 1 July 2004 and \$125,939 as at 24 January 2005. These adjustments will be reflected in Advanced Nano's investment in joint venture entity; and
- Amortisation of ANT's capitalised development costs for the period from 24 January 2005 to 30 June 2005 (\$9,912) less grant income attributable to that amortisation of \$4,956. The net adjustment of \$4,956 will be reflected in Advanced Nano's consolidated result.

(iii) AASB 131 Investments in Joint Ventures

Under AASB 131 Investments in Joint Ventures, Advanced Nano held an interest in a joint venture entity for part of the year. The Company has not changed its method of accounting for its interest in ANT; however the value of this investment has been adjusted to take up differences in the equity accounted value due to implementation of the following AIFRS standards. These standards include:

- AASB 120 Government Grants; and
- AASB 138 Intangible Assets.

The impact of implementation of these standards on Advanced Nano's investment in ANT as at 1 July 2004 is expected to be as follows:

- Increase in investment due to capitalisation of assets acquired via grant funding of \$450,659;
- Increase in investment due to capitalisation of development costs of \$265,011;
- Decrease in investment due to unearned income associated with capitalised development costs of \$132,506; and
- Therefore, a net increase in investment of \$583,164, of which Advanced Nano's 50% share is \$291,582.



NOTE 7. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (continued)

(e) Notes to reconciliations of AGAAP to that of AIFRS (continued)

(iii) AASB 131 Investments in Joint Ventures (continued)

With respect to the adjustment as at 30 June 2005, Advanced Nano's share of ANT's loss increased due to the amortisation of capitalised development costs for the period 1 July 2004 to 24 January 2005 (\$32,949). In addition, there is a reduction in amortisation of intangible assets of \$8,155 for the period 25 January 2005 to 30 June 2005.

(iv) AASB 2 Share Based Payments

Under AASB 2 Share Based Payments, the Company would recognise the fair value of options granted to Directors and/or employees as an expense on a pro-rata basis over the options' vesting period in the income statement with a corresponding adjustment to equity. Share based payment costs to Directors/employees are not currently recognised under AGAAP.

The value of the 750,000 options granted to Directors in February 2005 (250,000 options for each of three non-executive Directors) was approximately \$63,891 in total, of which \$11,203 in total relates to the portion of the vesting period expired between grant date (22 February 2005) and year end (30 June 2005).

On 16 August 2005, the Company also offered 6,313,590 options to certain employees for nil consideration. These options will vest two years from the date of the Company's listing (vesting 24 February 2007). The expiry date for the options is 24 February 2010 and they may be exercised at an exercise price of 30.8 cents per option. The fair value of these options will be calculated at the grant date. As at the date of this report, these options have not been granted.

(v) AASB 112 Income Taxes

AASB 112 Income Taxes requires the group to use a balance sheet liability method, rather than the current income statement method, of calculating deferred tax assets and liabilities. The balance sheet liability method recognises deferred tax balances where there is a difference between the carrying value of an asset or liability and its tax base. Although the virtual certainty requirement of AGAAP has been relaxed, deferred tax assets should only be recognised if it is probable that they can be recovered. Due to the requirements of the taxation legislation associated with the use of these tax losses, the Company believes sufficient doubt remains over the recoverability of the group's deferred tax losses for them not to be brought to account.

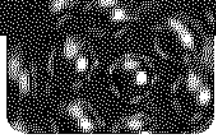
(vi) AASB 136 Impairment of Assets

AASB 136 Impairment of Assets sets out more stringent requirements for the assessment of the carrying values of assets than those currently imposed by existing AGAAP. Specifically, where there is an indication of impairment of an asset, the recoverable amount of the asset must be calculated and compared to the carrying value of the asset (other than for goodwill and indefinite-lived intangible assets, which must be assessed at each reporting date). Recoverable amount is defined as the higher of fair value less costs to sell and value in use. Value in use is calculated as the present value of the future cash flows expected to be derived from an asset. Currently, AGAAP does not require the use of discounted cash flows in the determination of recoverable amount.

To the extent that assets (tangible and intangible) are carried at amounts in excess of their recoverable amounts, as defined under AASB 136, and this impairment is not currently required to be recognised under AGAAP, an impairment charge will be required upon transition to AIFRS. As at the date of this report, the Company does not believe there is any indication of impairment and therefore no impairment loss to be recognised at either 1 July 2004 or 30 June 2005.

(vii) AASB 132 Financial Instruments

Advanced Nano's Board of Directors have decided to apply the exemption provided in AASB 1 First-time adoption of Australian equivalents to International Financial Reporting Standards which permits entities not to apply the requirements of AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement for the financial year ended 30 June 2005. The standards will be applied from 1 July 2005. The AIFRS project team is in the process of determining the impact that adopting the standards would have on the financial statements of the Company.



DIRECTORS' DECLARATION

In the opinion of the Directors of Advanced Nanotechnology Limited:

- (a) the concise financial report of the consolidated entity for the year ended 30 June 2005 is in accordance with Accounting Standard 1039 "Concise Financial Reports"; and
- (b) the financial statements and specific disclosures included in this concise financial report have been derived from the full financial report for the year ended 30 June 2005.

This declaration is made in accordance with a resolution of Directors.

WH Clough (Chairman)
Director

PG McCormick (CEO)
Director

Perth, Western Australia
19 September 2005.



INDEPENDENT AUDIT REPORT



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Independent audit report to members of Advanced Nanotechnology Limited

Scope

The concise financial report and directors' responsibility

The concise 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 for the year ended 30 June 2005. The consolidated entity comprises both Advanced Nanotechnology Limited (the company) and the entities it controlled during the year.

The directors of the company are responsible for preparing a concise financial report that complies with Accounting Standard AASB 1039 "Concise Financial Reports", 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 concise financial report.

Audit approach

We conducted an independent audit on the concise financial report in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the concise financial report is free of material misstatement and comply with Accounting Standard AASB 1046 and the Corporations Regulations 2001. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the concise financial report is presented fairly in accordance with Accounting Standard AASB 1039 "Concise Financial Reports" and comply with Accounting Standard AASB 1046 and the Corporations Regulations 2001. We formed our audit opinion on the basis of these procedures, which included:

- testing that the information in the concise financial report is consistent with the full financial report; and
- examining, on a test basis, information to provide evidence supporting the amounts, discussion and analysis, and other disclosures in the concise financial report that were not directly derived from the full financial report.

We have also performed an independent audit of the full financial report of the company for the year ended 30 June 2005. Our audit report on the full financial report was signed on 19 September 2005, and was not subject to any qualification. For a better understanding of our approach to the audit of the full financial report, this report should be read in conjunction with our audit report on the full financial report.

Independence

We are independent of the company and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, signed on 19 September 2005 a copy of which is included in the Directors' Report. The Auditors' Independence Declaration would have been expressed in the same terms if it had been given to the directors at the date this audit report was signed.

Audit opinion

In our opinion, the concise financial report of Advanced Nanotechnology Limited complies with Accounting Standard AASB 1039 "Concise Financial Reports".


Ernst & Young



Vern Tidy

Partner

Perth, Western Australia

19 September 2005

Liability limited by the Accountants Scheme, approved
under the Professional Standards Act 1994 (NSW)



ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange and not shown elsewhere in this report is as follows. The information is current as at 31 August 2005.

1. DISTRIBUTION OF EQUITY SECURITIES

ORDINARY FULLY PAID SHARES

The number of shareholders, by size of holding in each class of share is:

Range	Total Holders	Units	Percentage Issued Capital
1 – 1,000	2	722	–
1,001 – 5,000	52	213,098	0.13
5,001 – 10,000	275	2,631,232	1.57
10,001 – 100,000	305	11,820,022	7.05
100,001 and above	85	153,106,128	91.26
Rounding	–	–	(0.01)
TOTAL	719	167,771,202	100.00

UNMARKETABLE PARCELS

	Minimum Parcel Size	Holders	Units
Minimum \$500.00 parcel at \$0.155 per share	3,226	19	50,025

2. TWENTY LARGEST SHAREHOLDERS

The names of the twenty largest holders of quoted shares are:

Rank	Name	Units Held at End of Period	Percentage of Issued Capital
1	University of Western Australia	48,260,323	28.77
2	Citicorp Nominees Pty Ltd	8,948,278	5.33
3	Samsung Corning Co. Ltd	8,107,536	4.83
4	House of Maister Financial Services Limited	7,500,000	4.47
5	ANZ Nominees Limited Cash Income A/C	7,363,300	4.39
6	UBS Nominees Pty Ltd Prime Broking A/C	5,500,118	3.28
7	Pacific Development Capital Limited	5,000,118	2.98
8	McRae Investments Pty Ltd	5,000,000	2.98
9	Mr. John Catherwood Young Mrs. Corinne Girard Young Young Family A/C	3,922,877	2.34
10	Mr. Paul Gerard McCormick	3,531,157	2.10
11	Mr. Robert Street	2,531,157	1.51
12	G Harvey Nominees Pty Ltd Harvey 1995 Discretionary A/C	2,500,000	1.49
13	Invia Custodian Pty Limited Black A/C	2,500,000	1.49
14	LJK Investments Pty Ltd	2,413,590	1.44
15	Wen Qing Dai	2,288,190	1.36
16	Mr. Darren Brian Vincent	2,085,352	1.24
17	CVC Limited	1,980,619	1.18
18	Philadelphia Investments Pty Limited	1,800,000	1.07
19	Invia Custodian Pty Limited WAM Capital Limited A/C	1,742,932	1.04
20	Larksea Investments Pty Ltd Lake Avenue A/C	1,500,000	0.89
TOTAL		124,475,547	74.18



3. SUBSTANTIAL SHAREHOLDERS

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

Rank	Name	Units Held at End of Period	Percentage of Issued Capital
1	University of Western Australia	48,260,323	28.77
2	Pacific Development Group	8,734,419	5.21

4. VOTING RIGHTS

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.

5. ESCROW

The following securities are subject to escrow:

Name	Number of Shares Held	Number of Options Held	Date Escrow Period Ends
University of Western Australia	48,260,323	–	24 February 2007
PG McCormick	3,531,157	5,911,157	24 February 2007
WH Clough	–	250,000	24 February 2007
DC Griffiths	–	250,000	24 February 2007
RMA Mangioni	–	250,000	24 February 2007
K Kerridge	–	1,425,000	24 February 2007
V McGrouther	–	1,425,000	24 February 2007
J Au Yeung	–	750,000	24 February 2007
Petjoh Pty Limited	–	203,692	24 February 2007
D Agnew	–	100,000	24 February 2007
TOTAL	51,791,480	10,564,849	

6. USE OF PROCEEDS

In accordance with ASX listing rule 4.10.19, the Company confirms that it has used the cash and assets in a form readily convertible to cash in a way consistent with its business objectives during the period from admission (22 February 2005) to the end of the financial year (30 June 2005).

7. ON-MARKET BUY BACK

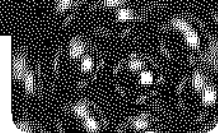
There is no current on-market buy back.

8. UNQUOTED EQUITY SECURITIES

The number of unquoted securities and the number of holders are as follows:

Class	Number of Options	Number of Holders
Options over ordinary shares	14,133,581	18

No person currently holds 20% or more of the above unquoted equity securities (excluding securities issued under the employee share option plan).



CORPORATE DIRECTORY



ACN 079 845 855
ABN 54 079 845 855

Directors

William Harold Clough AO, OBE
(Non-Executive Chairman)

David Charles Griffiths
(Non-Executive Director)

Robert Michael Alexander Mangioni
(Non-Executive Director)

Paul Gerard McCormick
(Chief Executive Officer)

Company Secretary

Deana Cesari
(Chief Financial Officer)

Registered Office

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Computershare Investor Services
Pty Limited
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Perth WA 6000

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