Advanced Nanotechnology Limited
ACN: 079 845 855
108 Radium Street
Welshpool WA 6106
AUSTRALIA
Tel: +61 (8) 9458 0800
Fax: +61 (8) 9458 0808

ASX ANNOUNCEMENT
(ASX: ANO)

3 MARCH 2006

HALF-YEAR REPORT

Advanced Nanotechnology Limited (Advanced Nano) today announced its results for the six months ended 31 December 2005.

Advanced Nano's CEO, Paul McCormick stated "the Company's half-year results reflect the increasing international demand for our nanomaterial products. We look forward to the balance of 2006 as the Company launches several new products which we expect will further strengthen our family of products and enhance our revenue stream in future years."

HIGHLIGHTS

Highlights of the 2006 half-year include:

- Sales to customers for the six months to the end of December totalled $1,520,487, as compared with $536,566 for the first half of the 2005 fiscal year and surpassing the 2005 full year total of $1,502,512.
- Sales of personal care products for the first half of the 2006 financial year totalled $923,626 compared to $400,403 for the December 2004 half-year, and exceeding the 2005 financial year total of $719,309.
- Total industrial and environmental product sales for the first half of the 2006 financial year were $596,861, up from $136,163 for the corresponding period in the 2005 fiscal year and equal to approximately 76% of total industrial and environmental product sales for the full 2005 financial year ($783,203).
- Advanced Nano's gross profit/(loss) improved significantly due to increased revenue and efficiency improvements, resulting in a gross profit of $770,635 for the first half of the 2006 financial year compared to $13,927 loss for the December 2004 half-year.
- Installation and commissioning of new process equipment to implement the final processing stage in the manufacture of Envirox™ for Oxonica plc (UK). The full manufacturing of Envirox™ is now carried out by Advanced Nano, with the first shipment of fully processed Envirox™ occurring in December 2005.
- Ongoing program of plant expansion, equipment and maintenance upgrades, enabling production to meet the increase in customer orders. During the December quarter, Advanced Nano's Operations group was able to fulfil all back orders, enabling the building of stock levels to support further sales growth.
- Awarded the Frost & Sullivan "Excellence in Technology of the Year Award" in the field of nanomaterials in November 2005.

Recent events:

- In February 2006, Advanced Nano signed an agreement with the Cornelius Group (UK) for their Industrial Division to become exclusive agents for the sale and distribution of NanoZ® in UK, Ireland and Europe (replacing Buhler AG in that role).

FINANCIALS

Advanced Nano's loss for the 2005 half-year of $1,497,130 was in line with the Directors' expectations and reflects a reduction in our loss of $178,810 compared to the $1,675,940 loss for the corresponding period in 2004.

Advanced Nano's production operations improved over 2005, mainly as a result of the significant revenue growth achieved and improvements in the efficiency of day to day operations. Advanced Nano estimates its total contribution from operations (including production overheads and un-utilised capacity) was approximately $195,000 for the December 2005 half-year. Net corporate overheads have also improved, predominantly due to significant increases in interest income associated with the investment of funds raised in Advanced Nano's February 2005 initial public offering.

Advanced Nano has also continued to increase its investment in research and development, product development and scale up activities, and marketing and business development, all aimed at expanding Advanced Nano's product range and contributing to the long term growth of the Company. Advanced Nano estimates that it has invested approx. $760,000 in these activities during the December 2005 half-year.

Further discussion of Advanced Nano's revenue and expense items are set out in the following sections.

REVENUE

Total revenue from operating activities for the December 2005 half-year was $1,737,652, an increase of 186% over the 2004 half-year. Sales to customers for the December 2005 half-year totalled $1,520,487, an increase of approximately 183% over the previous half-year's sales of $536,566.

	Dec 2005	Dec 2004	Increase / (Decrease)	% Change	
	$	$	$		
Sales to customers					
Personal Care	923,626	400,403	523,223	Up	131%
Industrial & Environmental	596,861	136,163	460,698	Up	338%
	1,520,487	536,566	983,921	Up	183%
Finance income	217,165	71,330	145,835	Up	204%
Total revenue	1,737,652	607,896	1,129,756	Up	186%

Sales to Customers - Personal Care Division

Sales of both the ZinClear® and Alusion® personal care product lines increased strongly in the first half. Total personal care sales totalled $923,626 compared to $400,403 for the December 2004 half-year, and exceeding the 2005 financial year total of $719,309.

Advanced Nano's recent strengthening of sales and marketing activities is enabling the Company to pursue new opportunities in both Australia and overseas to capitalise on the growing demand and unique qualities of its personal care products. The Company expects to launch two new, zinc oxide based, products in the personal care sector in the current (second) half of the 2006 financial year that will widen market potential for its products in this sector.

Sales to Customers - Industrial & Environmental Division

Total industrial and environmental product sales for the first half of the 2006 financial year were $596,861, up from $136,163 for the corresponding period in the 2005 fiscal year and equal to approximately 76% of total industrial and environmental product sales for the full 2005 financial year ($783,203).

Sales of product to Oxonica plc (UK), which are a major contributor to the Company's industrial and environmental products revenues, decreased in the second quarter relative to first quarter sales as Oxonica processed the first quarter deliveries and built stock. The Directors expect sales to Oxonica to soften for the remainder of the financial year.

During the December quarter Advanced Nano successfully installed and commissioned new process equipment to implement the final processing stage in the manufacture of Envirox™. The full manufacturing of Envirox™ is now carried out by Advanced Nano. The first shipment of fully processed Envirox™ occurred in December and this allows shipment of the final product directly from Advanced Nano's factory to Oxonica's distribution centres and final customers worldwide.

Finance Income

The significant increase in finance income is due to interest revenue associated with the investment of funds raised in Advanced Nano's February 2005 initial public offering.

RESULT AND EXPENSES

Advanced Nano's income statement for the half-year ended 31 December 2005 is as follows:

	Dec 2005	Dec 2004	Increase / (Decrease)	% Change	
	$	$	$		
Continuing operations					
Revenue	1,737,652	607,896	1,129,756	Up	186%
Cost of goods sold	(967,017)	(621,823)	(345,194)	Up	56%
Gross profit/(loss)	770,635	(13,927)	784,562		
Less other income and expenses					
Other (income)	(35,501)	-	(35,501)	Up	100%
Labour & personnel expenses	1,147,426	840,142	307,284	Up	37%
Travel and related expenses	59,273	66,749	(7,476)	Down	11%
Occupancy expenses	155,411	82,354	73,057	Up	89%
Corporate overheads	235,351	212,865	22,486	Up	11%
Sales & marketing expenses	49,490	11,428	38,062	Up	333%
Depreciation & amortisation	547,813	318,733	229,080	Up	72%
Other expenses	96,355	(42,258)	138,613	Up	328%
Share of loss of joint venture	-	157,928	(157,928)	Down	100%
Loss before tax and finance costs	1,484,983	1,661,868	(176,885)	Down	11%
Finance costs	12,147	14,072	(1,925)	Down	14%
Loss before income tax	1,497,130	1,675,940	(178,810)	Down	11%
Income tax expense	-	-	-		
Loss after income tax	1,497,130	1,675,940	(178,810)	Down	11%

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

- Cost of goods sold – overall costs increased in line with the increase in customer sales, including additional contract labour to support higher production levels. Repairs and maintenance costs have also increased the past year in light of higher production levels and to implement improvements in the reliability of plant and equipment. Advanced Nano's gross profit percentage significantly improved in the December 2005 half-year due to higher utilisation of plant and direct production overheads, along with reductions in raw materials and other variable production costs due to production process improvements;

- Other income – relates to income associated with the R&D START grant offsetting depreciation of grant assets and amortisation of grant development costs;
- Labour – labour costs for the December 2004 half-year did not include certain staff who were employed directly by ANT and therefore 50% of their labour costs were included in the share of joint venture loss. Other increases in labour costs are due to increases in headcount to support the Company's growth in production activities, and the strengthening of its finance and executive team;
- 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 corporate overheads have increased slightly during the December 2005 half-year primarily due to the ongoing compliance costs associated with a publicly listed company;
- Sales & marketing – costs relate to the production of marketing material and Advanced Nano attendance at industry trade shows and conferences (attendance, booth, posters). During the December 2005 half-year, Advanced Nano also invested in extending our range of sample formulations, specifically engineered to target the needs of European and Japanese markets;
- Depreciation & amortisation – the Company has a significant annual expense associated with the amortisation of its patents, licenses and technologies. This expense increased during 2005 due to the effect of consolidation of ANT, which holds a 50% interest in the MCP™ nanopowder manufacturing technology (previously included in share of joint venture loss);
- Other expenses – majority of other expenses in 2005 relate to the expensing of director and employee options issued, which are recognised as an expense from issue date over their vesting period (to February 2007);
- Share of joint venture loss – ANT became a wholly owned entity in January 2005 and as such, was consolidated in the December 2005 half-year; and
- Finance costs – relate to interest expenses associated with the Company's chattel mortgages (December 2005 balance $261,848).

OUTLOOK

The seasonality of certain personal care products and markets, along with the softening of sales to Oxonica, may impact Advanced Nano's revenue for the second half of the 2006 financial year (as compared to the first half).

Over the next six months, Advanced Nano will continue to increase its investment in business development, product development and product scale-up activities prior to the launch of three new products aimed at penetrating the US sunscreen and international industrial coatings market.

FURTHER INFORMATION: Paul McCormick, Chief Executive Officer
Office: (08) 9458 0800
Mobile: 0407 381 583

Advanced Nanotechnology Limited
ACN: 079 845 855
108 Radium Street
Welshpool WA 6106
AUSTRALIA
Tel: +61 (8) 9458 0800
Fax: +61 (8) 9458 0810

APPENDIX 4D – HALF YEAR REPORT - 31 DECEMBER 2005

NAME OF ENTITY	Advanced Nanotechnology Limited
ABN	54 079 845 855

1. DETAILS OF THE REPORTING PERIOD AND THE PREVIOUS CORRESPONDING PERIOD.

The reporting period is from 1 July 2005 to 31 December 2005. The previous corresponding period is 1 July 2004 to 31 December 2004.

2. RESULTS FOR ANNOUNCEMENT TO THE MARKET.

2.1	Revenue from ordinary activities	Up	1,129,756	186%	To	1,737,652	From	607,896
2.2	Profit/(loss) from ordinary activities after tax attributable to members	Up	178,810	11%	To	(1,497,130)	From	(1,675,940)
2.3	Net profit/(loss) for the period attributable to members	Up	178,810	11%	To	(1,497,130)	From	(1,675,940)
2.4	The Company does not propose to pay a dividend in respect of the 2006 financial year.							
2.4	Not applicable.							
2.4	Refer pages 1 to 4.							

3. NET TANGIBLE ASSETS PER SECURITY.

Current period – 5.24 cents per share (31 December 2005).

Previous corresponding period – equivalent of 4.48 cents per share (31 December 2004).

4. DETAILS OF ENTITIES OVER WHICH CONTROL HAS BEEN GAINED OR LOST DURING THE PERIOD.

During the period – not applicable.

As at 31 December 2004, Advanced Nanotechnology Limited held a 50% interest in a joint venture entity, Advanced Nano Technologies Pty Ltd. The remaining 50% of the joint venture entity was held by Samsung Corning Co. Ltd.

On 24 January 2005, Advanced Nano Technologies Pty Ltd, 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 Advanced Nano Technologies Pty Ltd became a wholly owned subsidiary of Advanced Nanotechnology Limited.

5. Details of individual and total dividends or distributions and dividend or distribution payments.

Not applicable.

6. Details of any dividend or distribution reinvestment plans in operation.

Not applicable.

7. Details of associates and joint venture entities.

11.1 Name of the entity - Advanced Nano Technologies Pty Ltd.

11.2 50% interest from 1 July 2004 to 24 January 2005.

11.3 Share of joint venture loss - $Nil (2004: $157,928).

8. For foreign entities, which set of accounting standards is used in compiling the report (e.g. International Accounting Standards).

Not applicable.

9. If accounts are subject to audit dispute or qualification, a description of the dispute or qualification.

This Appendix 4D is based upon the 2005 half-year report of Advanced Nanotechnology Limited which has been subject to an independent review.

A copy of the independent review report is attached as part of the 2005 Half-year Report.

There is no audit dispute or qualification contained in this review report.

Advanced Nanotechnology Limited
ACN 079 845 855

Half-Year Report – 31 December 2005

CONTENTS PAGE

DIRECTORS' REPORT		2
AUDITOR'S INDEPENDENCE DECLARATION		5
FINANCIAL REPORT		
Condensed Income Statement		6
Condensed Balance Sheet		7
Condensed Cash Flow Statement		8
Condensed Statement of Changes in Equity		9
Notes to the Financial Statements		10
Note 1.	Summary of significant accounting policies	10
Note 2.	Revenues and expenses	25
Note 3.	Dividends paid and proposed	25
Note 4.	Issued capital	25
Note 5.	Segment information	26
Note 6.	Changes in composition of equity	26
Note 7.	Discontinued operations	26
Note 8.	Contingent assets and liabilities	26
Note 9.	Events after the balance sheet date	26
Note 10.	Additional information	26
Directors' declaration		27
INDEPENDENT REVIEW REPORT TO THE MEMBERS OF ADVANCED NANOTECHNOLOGY LIMITED		28

DIRECTORS' REPORT

The Directors of Advanced Nanotechnology Limited (Advanced Nano) present their report together with the financial report of the Group for the half-year ended 31 December 2005 and the independent review report thereon.

Directors

The following persons were directors of Advanced Nanotechnology Limited during the half-year and until the date of this report. Directors were in office for this entire period unless otherwise stated.

- Mr. Harold Clough AO, OBE (Non-Executive Chairman)
- Mr. David Griffiths (Non-Executive Director)
- Mr. Robert Mangioni (Non-Executive Director)
- Dr. Paul McCormick (Chief Executive Officer)

Review and Results of Operations

HIGHLIGHTS

Highlights of the 2006 half-year include:

- Sales to customers for the six months to the end of December totalled $1,520,487, as compared with $536,566 for the first half of the 2005 fiscal year and surpassing the 2005 full year total of $1,502,512.
- Sales of personal care products for the first half of the financial year totalled $923,626 compared to $400,403 for the December 2004 half-year, and exceeding the 2005 financial year total of $719,309.
- Total industrial and environmental product sales for the first half of the 2006 financial year were $596,861, up from $136,163 for the corresponding period in the 2005 fiscal year and equal to approximately 76% of total industrial and environmental product sales for the full 2005 financial year ($783,203).
- Advanced Nano's gross profit/(loss) improved significantly due to increased revenue and efficiency improvements, resulting in a gross profit of $770,635 for the first half of the 2006 financial year compared to $13,927 loss for the December 2004 half-year.
- Installation and commissioning of new process equipment to implement the final processing stage in the manufacture of Envirox™ for Oxonica plc (UK). The full manufacturing of Envirox™ is now carried out by Advanced Nano, with the first shipment of fully processed Envirox™ occurring in December 2005.
- Ongoing program of plant expansion, equipment and maintenance upgrades, enabling production to meet the increase in customer orders. During the December quarter, Advanced Nano's Operations group was able to fulfil all back orders, enabling the building of stock levels to support further sales growth.
- Awarded the Frost & Sullivan "Excellence in Technology of the Year Award" in the field of nanomaterials in November 2005.

Recent events:

- In February 2006, Advanced Nano signed an agreement with the Cornelius Group (UK) for their Industrial Division to become exclusive agents for the sale and distribution of NanoZ® in UK, Ireland and Europe (replacing Buhler AG in that role).

FINANCIALS

Advanced Nano's loss for the 2005 half-year of $1,497,130 was in line with the Directors' expectations and reflects a reduction in our loss of $178,810 compared to the $1,675,940 loss for the corresponding period in 2004.

Advanced Nano's production operations improved over 2005, mainly as a result of the significant revenue growth achieved and improvements in the efficiency of day to day operations. Advanced Nano estimates its total contribution from operations (including production overheads and un-utilised capacity) was approximately $195,000 for the December 2005 half-year. Net corporate overheads have also improved, predominantly due to significant increases in interest income associated with the investment of funds raised in Advanced Nano's February 2005 initial public offering.

Advanced Nano has also continued to increase its investment in research and development, product development and scale up activities, and marketing and business development, all aimed at expanding Advanced Nano's product range and contributing to the long term growth of the Company. Advanced Nano estimates that it has invested approx. $760,000 in these activities during the December 2005 half-year.

Further discussion of Advanced Nano's revenue and expense items are set out in the following sections.

DIRECTORS' REPORT continued

REVENUE

Total revenue for the December 2005 half-year was $1,737,652, an increase of 186% over the 2004 half-year. Sales to customers for the December 2005 half-year totalled $1,520,487, an increase of approximately 183% over the previous half-year's sales of $536,566.

	Dec 2005	Dec 2004	Increase / (Decrease)	% Change	
	$	$	$		
Sales to customers					
Personal Care	923,626	400,403	523,223	Up	131%
Industrial & Environmental	596,861	136,163	460,698	Up	338%
	1,520,487	536,566	983,921	Up	183%
Finance income	217,165	71,330	145,835	Up	204%
Total revenue	1,737,652	607,896	1,129,756	Up	186%

Sales to Customers - Personal Care Division

Sales of both the ZinClear® and Alusion® personal care product lines increased strongly in the first half. Total personal care sales totalled $923,626 compared to $400,403 for the December 2004 half-year, and exceeding the 2005 financial year total of $719,309.

Advanced Nano's recent strengthening of sales and marketing activities is enabling the Company to pursue new opportunities in both Australia and overseas to capitalise on the growing demand and unique qualities of its personal care products. The Company expects to launch two new, zinc oxide based, products in the personal care sector in the current (second) half of the 2006 financial year that will widen market potential for its products in this sector.

Sales to Customers - Industrial & Environmental Division

Total industrial and environmental product sales for the first half of the 2006 financial year were $596,861, up from $136,163 for the corresponding period in the 2005 fiscal year and equal to approximately 76% of total industrial and environmental product sales for the full 2005 financial year ($783,203).

Sales of product to Oxonica plc (UK), which are a major contributor to the Company's industrial and environmental products revenues, decreased in the second quarter relative to first quarter sales as Oxonica processed the first quarter deliveries and built stock. The Directors expect sales to Oxonica to soften for the remainder of the financial year.

During the December quarter Advanced Nano successfully installed and commissioned new process equipment to implement the final processing stage in the manufacture of Envirox™. The full manufacturing of Envirox™ is now carried out by Advanced Nano. The first shipment of fully processed Envirox™ occurred in December and this allows shipment of the final product directly from Advanced Nano's factory to Oxonica's distribution centres and final customers worldwide.

Finance Income

The significant increase in finance income is due to interest revenue associated with the investment of funds raised in Advanced Nano's February 2005 initial public offering.

COSTS AND EXPENSES

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

- Cost of goods sold – overall costs increased in line with the increase in customer sales, including additional contract labour to support higher production levels. Repairs and maintenance costs have also increased the past year in light of higher production levels and to implement improvements in the reliability of plant and equipment. Advanced Nano's gross profit percentage significantly improved in the December 2005 half-year due to higher utilisation of plant and direct production overheads, along with reductions in raw materials and other variable production costs due to production process improvements;
- Other income – relates to income associated with the R&D START grant offsetting depreciation of grant assets and amortisation of grant development costs;
- Labour – labour costs for the December 2004 half-year did not include certain staff who were employed directly by ANT and therefore 50% of their labour costs were included in the share of joint venture loss. Other increases in labour costs are due to increases in headcount to support the Company's growth in production activities, and the strengthening of its finance and executive team;
- 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 corporate overheads have increased slightly during the December 2005 half-year primarily due to the ongoing compliance costs associated with a publicly listed company;
- Sales & marketing – costs relate to the production of marketing material and Advanced Nano attendance at industry trade shows and conferences (attendance, booth, posters). During the December 2005 half-year, Advanced Nano also invested in extending our range of sample formulations, specifically engineered to target the needs of European and Japanese markets;

DIRECTORS' REPORT continued

COSTS AND EXPENSES continued

- Depreciation & amortisation – the Company has a significant annual expense associated with the amortisation of its patents, licenses and technologies. This expense increased during 2005 due to the effect of consolidation of ANT, which holds a 50% interest in the MCP™ nanopowder manufacturing technology (previously included in share of joint venture loss);
- Other expenses – majority of other expenses in 2005 relate to the expensing of director and employee options issued, which are recognised as an expense from issue date over their vesting period (to February 2007);
- Share of joint venture loss – ANT became a wholly owned entity in January 2005 and as such, was consolidated in the December 2005 half-year; and
- Finance costs – relate to interest expenses associated with the Company's chattel mortgages (December 2005 balance $261,848).

OUTLOOK

The seasonality of certain personal care products and markets, along with the softening of sales to Oxonica, may impact Advanced Nano's revenue for the second half of the 2006 financial year (as compared to the first half).

Over the next six months, Advanced Nano will continue to increase its investment in business development, product development and product scale-up activities prior to the launch of three new products aimed at penetrating the US sunscreen and international industrial coatings markets.

Auditor's Independence Declaration

We have obtained an Independence Declaration from our auditors, Ernst & Young, which is included on page 5.

Signed in accordance with a resolution of the Directors:

WH Clough (Chairman) Director	PG McCormick (CEO) Director

Perth, 3 March 2006

ERNST & YOUNG

■ The Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000
Australia

GPO Box M939
Perth WA 6843

■ Tel 61 8 9429 2222
Fax 61 8 9429 2436

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

In relation to our review of the financial report of Advanced Nanotechnology Limited for the half-year ended 31 December 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

Ernst & Young

V. Tidy

V W Tidy
Partner
Perth
3 March 2006

CONDENSED INCOME STATEMENT
For the half-year ended 31 December 2005

	Notes	CONSOLIDATED 2005 $	CONSOLIDATED 2004 $
Continuing operations			
Revenue	2	1,737,652	607,896
Cost of goods sold		(967,017)	(621,823)
Gross profit/(loss)		770,635	(13,927)
Other income	2	35,501	-
Labour & personnel expenses		(1,147,426)	(840,142)
Travel and related expenses		(59,273)	(66,749)
Occupancy expenses		(155,411)	(82,354)
Corporate overheads		(235,351)	(212,865)
Sales & marketing expenses		(49,490)	(11,428)
Depreciation & amortisation	2	(547,813)	(318,733)
Other expenses		(96,355)	42,258
Share of loss of joint venture		-	(157,928)
Profit/(loss) from continuing operations before tax and finance costs		(1,484,983)	(1,661,868)
Finance costs		(12,147)	(14,072)
Profit/(loss) before income tax		(1,497,130)	(1,675,940)
Income tax expense		-	-
Profit/(loss) after tax from continuing operations		(1,497,130)	(1,675,940)
Discontinued operations			
Loss from discontinued operations		-	-
Net profit/(loss) for the period		(1,497,130)	(1,675,940)
Profit/(loss) attributable to minority interest		-	-
Net profit/(loss) attributable to members of parent		(1,497,130)	(1,675,940)
Loss per share (cents per share)			
- basic for loss for the half-year		(0.89)	(1.43)
- basic for loss from continuing operations		(0.89)	(1.43)
- diluted for loss for the half-year		(0.89)	(1.43)
- diluted for loss from continuing operations		(0.89)	(1.43)
- dividends paid per share		-	-

The above Condensed Income Statement should be read in accordance with the accompanying notes.

CONDENSED BALANCE SHEET
As at 31 December 2005

	Notes	CONSOLIDATED 31-Dec-2005 $	30-Jun-2005 $
ASSETS			
Current Assets			
Cash and cash equivalents		7,102,149	8,405,549
Trade and other receivables		479,625	448,861
Inventories		359,560	360,297
Prepayments		92,730	25,671
Other current assets		16,639	22,272
Total Current Assets		8,050,703	9,262,650
Non-Current Assets			
Other financial assets		261,535	261,585
Property, plant and equipment		1,735,432	1,680,892
Intangible assets		6,809,723	7,066,217
Total Non-Current Assets		8,806,690	9,008,694
TOTAL ASSETS		16,857,393	18,271,344
LIABILITIES			
Current Liabilities			
Trade and other payables		157,118	170,859
Interest-bearing loans and borrowings		33,317	33,317
Provisions		145,336	135,944
Government grants		61,533	68,483
Other current liabilities		367,496	345,987
Total Current Liabilities		764,800	754,590
Non-Current Liabilities			
Interest-bearing loans and borrowings		228,531	245,190
Provisions		123,485	79,722
Government grants		134,825	163,376
Total Non-Current Liabilities		486,841	488,288
TOTAL LIABILITIES		1,251,641	1,242,878
NET ASSETS		15,605,752	17,028,466
Equity			
Issued capital	4	28,012,445	28,024,049
Option Premium Reserve		226,013	139,993
Accumulated Losses		(12,632,706)	(11,135,576)
Parent Interests		15,605,752	17,028,466
Minority interests		-	-
TOTAL EQUITY		15,605,752	17,028,466

The above Condensed Balance Sheet should be read in accordance with the accompanying notes.

CONDENSED CASH FLOW STATEMENT

For the half-year ended 31 December 2005

	Notes	CONSOLIDATED 2005 $	2004 $
Cash flows from operating activities			
Receipts from customers		1,298,935	423,124
Payments to suppliers and employees		(2,557,692)	(2,552,496)
		(1,258,757)	(2,129,372)
Interest received		216,352	71,330
Borrowing costs		(11,850)	-
Net cash (outflow) from operating activities		(1,054,255)	(2,058,042)
Cash flows from investing activities			
Purchase of property, plant and equipment		(177,051)	(480,485)
Purchase of patents and trademarks		(46,814)	(45,631)
Payment of security deposit		-	(95,000)
Net cash (outflow) from investing activities		(223,865)	(621,116)
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities		-	2,000,721
Share issue costs		(11,604)	(100,036)
Repayment of borrowings		(16,659)	26,683
Net cash inflow/(outflow) from financing activities		(28,263)	1,927,368
Net (decrease) in cash & cash equivalents held		(1,306,383)	(751,790)
Cash & cash equivalents at the beginning of the half year		8,405,549	2,435,518
Exchange rate adjustment		2,983	(28,272)
Cash & cash equivalents at the end of the half year	10	7,102,149	1,655,456

The above Condensed Cash Flow Statement should be read in accordance with the accompanying notes.

CONDENSED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2005

	Attributable to equity holders of the parent				Minority interest	Total equity
CONSOLIDATED	Issued capitall	Option premium reserve	Accumulated losses	Total		
	$	$	$	$	$	$
As 1 July 2004	17,572,588	23,702	(7,561,698)	10,034,592	-	10,034,592
Total income and expense for the period recognised directly in equity	-	-	-	-	-	-
Loss for the period	-	-	(1,675,940)	(1,675,940)	-	(1,675,940)
Total income/(expense) for the period	-	-	(1,675,940)	(1,675,940)	-	(1,675,940)
Share issue costs	(100,036)	-	-	(100,036)	-	(100,036)
Shares issued	2,000,721		-	2,000,721	-	2,000,721
At 31 December 2004	19,473,273	23,702	(9,237,638)	10,259,337	-	10,259,337

	Attributable to equity holders of the parent				Minority interest	Total equity
CONSOLIDATED	Issued capital	Option premium reserve	Accumulated losses	Total		
	$	$	$	$	$	$
As 1 July 2005	28,024,049	139,993	(11,135,576)	17,028,466	-	17,028,466
Total income and expense for the period recognised directly in equity	-	-	-	-	-	-
Loss for the period	-	-	(1,497,130)	(1,497,130)	-	(1,497,130)
Total income/(expense) for the period	-	-	(1,497,130)	(1,497,130)	-	(1,497,130)
Share issue costs	(11,604)	-	-	(11,604)	-	(11,604)
Cost of share-based payment	-	86,020	-	86,020	-	86,020
At 31 December 2005	28,012,445	226,013	(12,632,706)	15,605,752	-	15,605,752

The above Condensed Statement of Changes in Equity should be read in accordance with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation of the half-year financial report

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

The half-year financial report should be read in conjunction with the annual Financial Report of Advanced Nanotechnology Limited as at 30 June 2005, which was prepared based on Australian Accounting Standards applicable before 1 January 2005 ('AGAAP').

It is also recommended that the half-year financial report be considered together with any public announcements made by Advanced Nanotechnology Limited and its controlled entities during the half-year ended 31 December 2005 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a) Basis of accounting

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements.

The half-year financial report has been prepared on a historical cost basis, except for available-for-sale financial assets that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged with fair value hedges are adjusted to record changes in the fair values attributable to the risks that are being hedged.

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

(b) Statement of compliance

The half-year financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AASB 134 "Interim Financial Reporting" ensures that the half-year financial report, comprising the financial statements and notes thereto, complies with IAS 34 "Interim Financial Reporting".

This is the first half-year financial report prepared based on AIFRS and comparatives for the half-year ended 31 December 2004 and full-year ended 30 June 2005 have been restated accordingly. A summary of the significant accounting policies of the Group under AIFRS are disclosed in Note 1(c) - (ae) below.

Reconciliations of:
(i) AIFRS equity as at 1 July 2004, 31 December 2004 and 30 June 2005;
(ii) AIFRS loss for the half-year 31 December 2004 and full year 30 June 2005; and
(iii) AIFRS balance sheet as at 1 July 2004, 31 December 2005 and 30 June 2005,
to the balances reported in the 31 December 2004 half-year report and 30 June 2005 full-year financial report prepared under AGAAP are detailed in Note 1(ae) below.

From 1 July 2005, Advanced Nanotechnology Limited and its subsidiaries elected to take the exemption under AASB 1 "First Time Adoption of Australian Equivalents to International Financial Reporting Standards" to apply AASB 139 "Financial Instruments – Recognition and Measurement" and AASB 132 "Financial Instruments – Disclosure and Presentation" from 1 July 2005. Accordingly, comparatives have not been restated. For information on previous accounting policies, refer to the 2005 annual Financial Report prepared under AGAAP.

(c) 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 (the Group).

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent company has control.

Subsidiary acquisitions are accounted for using the purchase method of accounting. The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist. All intercompany balances and transactions, income and expenses and profits and losses from intra-group transactions, have been eliminated in full.

(d) Foreign currency

The functional and presentation currency of Advanced Nano and all of its subsidiaries is Australian Dollars ($).

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(d) Foreign currency continued

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. At balance date amounts payable and receivable in foreign currencies are translated to Australian currency at rates of exchange current at that date. Resulting exchange differences are recognised in determining the profit or loss for the year.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

(e) Cash and cash equivalents

For purposes of the statement of cash flows, cash and cash equivalents includes deposits at call with financial institutions and other highly liquid investments with short periods to maturity which is readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

(f) Trade and other receivables

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

Accounting policies applicable for the year ending 30 June 2006
Trade receivables, which generally have 30-90 day terms (with the exception of one US debtor), are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

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

Accounting policies applicable for the year ending 30 June 2005
All trade debtors are recognised at the amounts receivable as they are due for settlement (with the exception of one US debtor) no more than 90 days from the date of recognition.

Collectibility of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is raised when some doubt as to collection exists.

(g) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw Materials
Purchase cost on a first-in-first-out basis.

Finished Goods and Work In Progress
Cost of direct material and labour and a proportion of manufacturing overheads based on normal operating capacity.

(h) Acquisition of assets

Acquisitions are recorded at historical cost which is determined as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their fair value as at the acquisition date. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Business combinations are accounted for using the purchase method of accounting. This involves allocating the cost of the business combination to the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

(i) Impairment of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator exists, the Group makes a formal estimate of recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the assets' value in use cannot be estimated to be close to its fair value.

In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash generating unit is considered impaired and is written down to its recoverable amount. The decrement in the carrying amount is recognised as an expense in net profit or loss in the reporting period in which the recoverable amount write-down occurs.

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(i) Impairment of assets continued

In assessing value in use, the expected future cash flows included in determining recoverable amounts of assets are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(j) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on a straight line basis to write off the net cost of each item of property, plant and equipment over its expected useful life to the entity. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful lives are as follows:

	2006	*2005*	
Category	*Useful life*	*Useful life*	*Depreciation basis*
Plant and equipment	5-15 Years	5-15 Years	Straight line

Where items of plant and equipment have separately identifiable components which are subject to regular replacements, those components are assigned useful lives distinct from the item of plant and equipment to which they relate.

Impairment
The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

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

(k) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(l) Leases

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incident to ownership of leased non-current assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Operating lease payments are recognised as expenses on a straight line basis over the lease term unless a more systematic basis is more representative of the time pattern of the user's benefits. The Group does not currently have any finance leases.

(m) Jointly controlled entity

The Group's interest in the jointly controlled entity is accounted for using the equity method of accounting in the consolidated financial statements. Under the equity method, the Group's interest in the jointly controlled entity is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the jointly controlled entity. Goodwill relating to the jointly controlled entity is included in the carrying amount of the investment and is not amortised. After the application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the jointly controlled entity. The consolidated income statement reflects the Group's share of the results of the operation of the jointly controlled entity.

Where there has been a change recognised directly in the jointly controlled entity's equity, the Group recognises its share of any changes directly in its equity.

(n) Investments in subsidiary

The investment in subsidiary is carried at the lower of cost and recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(o) Investments and other financial assets

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

Accounting policies applicable for the year ending 30 June 2006
Financial assets in the scope of AASB 139 "Financial Instruments – Recognition and Measurement" are classified as either:
(i) Financial assets at fair value through profit or loss;
(ii) Loans and receivables;
(iii) Held-to-maturity investments; or
(iv) Available-for-sale investments,
as appropriate.

When financial assets are initially recognised they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

After initial recognition, investments, which are classified as held for trading (in the category "Financial assets at fair value through profit or loss") and available-for-sale, are measured at fair value. Gains or losses on investments held for trading are recognised in profit or loss.

For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date.

For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected future cash flows of the underlying net asset base of the investment.

Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in profit or loss.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity.

For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

Accounting policies applicable for the year ending 30 June 2005
All non-recoverable amounts were carried at the lower of cost and recoverable amount.

Non-current financial assets measured using the cost basis were not carried at an amount above their recoverable amount, and when a carrying value exceeded this recoverable amounts, the financial asset was written down to its recoverable amount. In determining recoverable amount, the expected net cash flows were discounted to their present value using a market determined risk adjusted discount rate.

(p) Impairment of financial assets

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

Accounting policies applicable for the year ending 30 June 2006
The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

(i) <u>Financial assets carried at amortised cost</u>

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss. The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(p) Impairment of financial assets continued

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

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

(iii) Available-for-sale investments

If there is objective evidence that an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Reversals of impairment losses for equity instruments classified as available-for-sale are not recognised in profit. Reversals of impairment losses for debt instruments are reversed through profit or loss if the increase in an instrument's fair value can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Accounting policies applicable for the year ending 30 June 2005
For current financial assets, refer to note 1(f) and note 1(i) for the impairment accounting policy. For non-current financial assets, refer to note 1(i) for the impairment accounting policy.

(q) Intangible assets and expenditure carried forward

Acquired both separately and from a business combination
Intangible assets acquired separately are initially measured at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets, i.e. they are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of these intangible assets are assessed to be either finite or indefinite.

Where amortisation is charged on assets with finite lives, this expense is taken to the income statement through the 'depreciation and amortisation' line item.

Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the period in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists, and in the case of indefinite lived intangibles annually, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Intellectual property rights
The cost of acquiring intellectual property rights (copyright) is carried at cost and amortised on a straight-line basis over 16.24 years, being the remaining useful life from the date of transfer.

Patents and trademarks
Costs incurred for the preparation, application and registration of patents and trademarks (including patents attorney fees) are carried at cost and are amortised on a straight-line basis from the application date over the remaining useful life of the patent or trademark, being up to 20 years (patents) or 10 years (trademarks). If the patent or trademark is not granted, lapses or is abandoned, any capitalised cost is expensed when known. The costs associated with annual renewal fees are expensed as incurred.

Research and development costs
Research costs are expensed as incurred.

Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight-line basis over the products life, currently estimated at 5 years.

Any expenditure carried forward is amortised over the period of expected future sales from the related project.

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(q) Intangible assets and expenditure carried forward continued

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

(r) Trade creditors and other payables

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

Accounting policies applicable for the year ending 30 June 2006
These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. The amounts are unsecured and usually paid within 30 days of recognition. All trade creditors and other payables are initially recognised at fair value, net of any issue costs. After initial recognition, trade creditors and other payables are subsequently measured at amortised cost using the effective interest method.

Accounting policies applicable for the year ending 30 June 2005
Trade payables and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

(s) Interest bearing loans and borrowings

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

Accounting policies applicable for the year ending 30 June 2006
Loans and debentures are carried at their principal amounts which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period it becomes due and is recorded as part of payables.

After initial recognition, interest bearing loans and borrowing are subsequently measured at amortised cost using the effective interest method.

Accounting policies applicable for the year ending 30 June 2005
All loans were measured at the principal amount. Interest was recognised as an expense as it accrued.

(t) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Restoration/decommissioning costs
A provision for restoration/decommissioning costs is recognised for the expected costs associated with restoring the Group's leased premises back to the condition required under the terms and conditions of the lease. As further modifications are made to any of the Group's leased premises, additional provisions may be required. A provision is raised when there is a present obligation to incur the costs to restore the facilities.

(u) Share-based payment transactions

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

The Group currently has an Employee Share Option Plan (ESOP), which provides benefits to directors and employees.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a Black-Scholes valuation model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Advanced Nanotechnology Limited ('market conditions').

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

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(u) Share-based payment transactions continued

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

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

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

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

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

(v) Contributed equity

Issued and paid up capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds.

(w) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is recognised for the major business activities as follows:

Services
Service revenue is recognised when service is provided.

Other
Revenue from the sale of goods is recorded when goods have been despatched to a customer pursuant to a sales order and the associated significant risks and rewards of ownership of the goods have passed to the carrier or customer.

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

Accounting policies applicable for the year ending 30 June 2006
Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Accounting policies applicable for the year ending 30 June 2005
Revenue is recognised when the Group's right to receive payment is established.

(x) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

(y) Income tax

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

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(y) Income tax continued

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

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

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

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

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

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(z) Other taxes

Goods and Services Tax (GST)

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

(i) Where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

(ii) Receivables and payables are stated with the amount of GST included.

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

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

(aa) Employee benefits

Wages and salaries, annual leave and sick leave

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

Annual leave liabilities which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflow to be made in respect of services provided by the employees up to the reporting date. In determining the present value of the future cash outflow it is assumed that employees will receive salary increases in line with CPI and therefore once discounted back to the present value the current value equals the present value.

Superannuation

Contribution to employees' superannuation funds made up by the Group are charged to the income statement in the period in which the contributions are payable.

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(aa) Employee benefits continued

Long service leave
Liabilities for long service leave are measured at the present value of the estimated future cash outflow to be made in respect of services provided by the employees up to the reporting date. In determining the present value of the future cash outflow it is assumed that employees will receive salary increases in line with CPI and therefore once discounted back to the present value the current value equals the present value. Long service leave is recognised based on the following basis:

Years of service	0<5 years	5<10 years	10+ years
% of liability taken up	0%	100% *	100%

** Assessed on an individual basis.*

Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(ab) Earnings per share

Basic EPS is calculated as net profit/(loss) attributable to members adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit/(loss) attributable to members, adjusted for:
(i) Costs of servicing equity (other than dividends) and preference share dividends;
(ii) The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
(iii) Other non discretionary changes in revenue or expenses during the period that would result from, the dilution of potential ordinary shares,

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

(ac) Comparatives

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

(ad) AASB 1 Transitional exemptions

The Group has made its election in relation to the transitional exemptions allowed by AASB 1 "First time adoption of Australian equivalents to International Financial Reporting Standards" as follows:

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

Exemption from the requirement to restate comparative information for AASB 132 and AASB 139
The Group has elected to adopt this exemption and therefore AASB 132 "Financial Instruments – Presentation and Disclosure" and AASB 139 "Financial Instruments – Recognition and Measurement" has not been applied to comparative information.

(ae) Impact of adoption of AIFRS

The impacts of adopting AIFRS on the total equity, profit after tax, and balance sheet as reported under previous Australian Generally Accepted Accounting Principles (AGAAP) are illustrated below:

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(ae) Impact of adoption of AIFRS continued

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

CONSOLIDATED	Notes	30-Jun-2005	31-Dec-2004	01-Jul-2004
		$	$	$
		(2)	(2)	(1)
Total equity under AGAAP		16,674,276	9,874,617	9,633,390
Adjustments to retained earnings (net of tax)				
Depreciation on assets acquired through grant funding	(a)	(69,869)	-	-
Written down value of development phase assets	(b)	157,271	131,065	109,620
Adjustment to investment in joint venture	(c)	258,633	253,655	291,582
Reduction in amortisation of intangibles	(c)	8,155	-	-
Recognition of share-based payment expense	(d)	(11,203)	-	-
		342,987	384,720	401,202
Adjustments to other reserves (net of tax)				
Recognition of share-based payment expense	(d)	11,203	-	-
		11,203	-	-
Total equity under AIFRS		17,028,466	10,259,337	10,034,592

(1) This column represents the adjustments as at the date of transition to AIFRS.
(2) This column represents the cumulative adjustments as at the dates shown above.

Notes (a) to (d) refer note 1 (ae) (v) following.

(ii) Reconciliation of net profit/(loss) under AGAAP to that under AIFRS

CONSOLIDATED	Notes	Year ended 30-Jun-2005	Half-year ended 31-Dec-2004
		$	$
Net profit/(loss) as reported under AGAAP		(3,515,663)	(1,659,458)
Depreciation of grant assets net of recognised revenue	(a)	(69,869)	-
Amortisation of development phase intangible net of costs capitalised.	(b)	47,651	21,445
Additional share of joint venture loss	(c)	(32,949)	(37,927)
Write back of amortisation on goodwill AGAAP	(c)	8,155	-
Share-based payment expense	(d)	(11,203)	-
		(58,215)	(16,482)
Net profit/(loss) under AIFRS		(3,573,878)	(1,675,940)

Notes (a) to (d) refer note 1 (ae) (v) following.

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(ae) Impact of adoption of AIFRS continued

(iii) Reconciliation of Balance Sheet under AGAAP to that under AIFRS

	1 July 2004		
CONSOLIDATED	AGAAP	Transition impact	AIFRS
Current Assets			
Cash assets	2,435,518	-	2,435,518
Receivables	141,179	-	141,179
Inventories	160,262	-	160,262
Other	7,769	-	7,769
Total Current Assets	2,744,728	-	2,744,728
Non-Current Assets			
Cash assets	166,585	-	166,585
Investments accounted for using the equity method	2,370,466	291,582	2,662,048
Property, plant and equipment	603,258	-	603,258
Intangible assets	4,899,709	109,620	5,009,329
Total Non-Current Assets	8,040,018	401,202	8,441,220
Total Assets	10,784,746	401,202	11,185,948
Current Liabilities			
Payables	362,766	-	362,766
Interest bearing liabilities	33,317	-	33,317
Provisions	55,659	-	55,659
Other	421,107	-	421,107
Total Current Liabilities	872,849	-	872,849
Non-Current Liabilities			
Interest bearing liabilities	278,507	-	278,507
Total Non-Current Liabilities	278,507	-	278,507
Total Liabilities	1,151,356	-	1,151,356
Net Assets	9,633,390	401,202	10,034,592
Equity			
Contributed equity	17,572,588	-	17,572,588
Option premium reserve	23,702	-	23,702
Accumulated losses	(7,962,900)	401,202	(7,561,698)
Total Equity	9,633,390	401,202	10,034,592

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(ae) Impact of adoption of AIFRS continued

(iii) Reconciliation of Balance Sheet under AGAAP to that under AIFRS continued

	31 December 2004		
CONSOLIDATED	AGAAP	Transition impact	AIFRS
Current Assets			
Cash assets	1,655,456	-	1,655,456
Receivables	291,042	-	291,042
Inventories	236,446	-	236,446
Other	267,346	-	267,346
Total Current Assets	2,450,290	-	2,450,290
Non-Current Assets			
Cash assets	273,760	-	273,760
Investments accounted for using the equity method	2,250,463	253,655	2,504,118
Property, plant and equipment	983,879	-	983,879
Intangible assets	4,742,201	131,065	4,873,266
Total Non-Current Assets	8,250,303	384,720	8,635,023
Total Assets	10,700,593	384,720	11,085,313
Current Liabilities			
Payables	159,213	-	159,213
Interest bearing liabilities	76,659	-	76,659
Provisions	69,742	-	69,742
Other	258,514	-	258,514
Total Current Liabilities	564,128	-	564,128
Non-Current Liabilities			
Interest bearing liabilities	261,848	-	261,848
Total Non-Current Liabilities	261,848	-	261,848
Total Liabilities	825,976	-	825,976
Net Assets	9,874,617	384,720	10,259,337
Equity			
Contributed equity	19,473,273	-	19,473,273
Option premium reserve	23,702	-	23,702
Accumulated losses	(9,622,358)	384,720	(9,237,638)
Total Equity	9,874,617	384,720	10,259,337

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(ae) Impact of adoption of AIFRS continued

(iii) Reconciliation of Balance Sheet under AGAAP to that under AIFRS continued

	30 June 2005		
CONSOLIDATED	AGAAP	Transition impact	AIFRS
Current Assets			
Cash assets	8,405,549	-	8,405,549
Receivables	448,861	-	448,861
Inventories	360,297	-	360,297
Other	47,943	-	47,943
Total Current Assets	9,262,650	-	9,262,650
Non-Current Assets			
Cash assets	261,585	-	261,585
Property, plant and equipment	1,248,559	432,333	1,680,892
Intangible assets	6,912,501	153,716	7,066,217
Total Non-Current Assets	8,422,645	586,049	9,008,694
Total Assets	17,685,295	586,049	18,271,344
Current Liabilities			
Payables	170,859	-	170,859
Interest bearing liabilities	33,317	-	33,317
Provisions	135,944	-	135,944
Government Grants	-	68,483	68,483
Other	345,987	-	345,987
Total Current Liabilities	686,107	68,483	754,590
Non-Current Liabilities			
Interest bearing liabilities	245,190	-	245,190
Provisions	79,722	-	79,722
Government Grants	-	163,376	163,376
Total Non-Current Liabilities	324,912	163,376	488,288
Total Liabilities	1,011,019	231,859	1,242,878
Net Assets	16,674,276	354,190	17,028,466
Equity			
Contributed equity	28,024,049	-	28,024,049
Option premium reserve	128,790	11,203	139,993
Accumulated losses	(11,478,563)	342,987	(11,135,576)
Total Equity	16,674,276	354,190	17,028,466

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(ae) Impact of adoption of AIFRS continued

(iv) AIFRS Cash Flow Statement for the year ended 30 June 2005

There are no material differences in the cash flows presented under AGAAP on adoption of AIFRS.

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

(a) 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 resulted 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, less the grant income attributable to that depreciation for the period from 1 July 2004 to 31 December 2004 is $70,091 and 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 (c) 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 to 30 June 2005 ($77,551) less the grant income attributable to that depreciation ($7,682).

(b) 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 it;
- 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 as follows:
- Capitalisation of development costs in the books of Advanced Nano of $241,351 ($157,287 as at 1 July 2004, $37,174 as at 31 December 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, $63,396 as at 31 December 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 was 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 to 31 December 2004 of $11,522 and 1 July 2004 to 24 January 2005 of $13,132. These adjustments was 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, $126,745 as at 31 December 2004 and $125,939 as at 24 January 2005. These adjustments was 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 was reflected in Advanced Nano's consolidated result.

(c) 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 prior periods. 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 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.

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(ae) Impact of adoption of AIFRS continued

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

(c) AASB 131 "Investments in Joint Ventures" continued

The adjustment as at 31 December 2004 to Advanced Nano's share of ANT loss increased due to the amortisation of development costs (net of grant income) of $2,880.

With respect to the adjustment as at 30 June 2005, Advanced Nano's share of ANT 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.

(d) AASB 2 "Share Based Payments"

Under AASB 2 "Share Based Payments", the Company recognises 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 were not previously 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).

(e) AASB 112 "Income Taxes"

AASB 112 "Income Taxes" requires the Group to use a balance sheet liability method, rather than the AGAAP 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 Group believes sufficient doubt remains over the recoverability of the Group's deferred tax assets for them not to be brought to account.

(f) 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. Previously, AGAAP did not require the use of discounted cash flows in the determination of recoverable amount.

The Group does not believe there is any indication of impairment and therefore no impairment loss to be recognised at either 1 July 2004, 31 December 2004 or 30 June 2005.

(g) AASB 132 and AASB 139 "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: Presentation and Disclosures" and AASB 139 "Financial Instruments: Recognition and Measurement" for the financial year ended 30 June 2005. The standards have been applied from 1 July 2005 and as all financial instruments are currently stated at either fair value (for those designated as At Fair Value through Profit & Loss or Available-For-Sale) or at amortised cost (for those financial instruments designated as either Held-To-Maturity or Loans and Receivables) there is no impact on the financial statements as a result of the adoption of these standards, refer 1(ae) above.

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2005

2. REVENUE AND EXPENSES

(a) Specific items

Loss before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the performance of the entity:

		CONSOLIDATED	
		2005	2004
		$	$
(i)	**Revenue**		
	Sale of goods	1,520,487	536,566
	Finance income	217,165	71,330
		1,737,652	607,896
(ii)	**Other income**		
	Government grants released	35,501	-
		35,501	-
(iii)	**Expenses**		
	Depreciation	211,507	99,865
	Amortisation of development costs	32,407	15,729
	Amortisation of intellectual property	303,899	203,139
	Employee benefits	24,440	32,466
	Expense of share-based payments	86,020	-

(b) Seasonality of operations

Advanced Nano typically sees a reduction in revenue associated with its ZinClear® product range as the sunscreen market typically requires lower volumes in the spring quarter of each season as they finalise their summer launches. As Advanced Nano sells its ZinClear® products internationally, the impact of this seasonality is somewhat offset as the spring launch season occurs in different financial year quarters for customers in the southern and northern hemispheres.

(c) Revision of accounting estimates

During the half-year, no changes have been made to accounting estimates contained within the financial report.

3. DIVIDENDS PAID AND PROPOSED

No dividends were paid or proposed during the half-year.

4. ISSUED CAPITAL

	CONSOLIDATED	
	31-Dec-2005	30-Jun-2005
	$	$
Ordinary shares		
Issued and paid up capital	28,012,445	28,024,049

Movements in ordinary shares on issue	Number	$
At 1 July 2005	167,771,202	28,024,049
GST paid on share issue costs	-	(11,604)
	167,771,202	28,012,445

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2005

5. SEGMENT INFORMATION

The following table presents the revenue and profit/(loss) information regarding business segments for the half-year periods ended 31 December 2005 and 31 December 2004.

	CONTINUING OPERATIONS			TOTAL OPERATIONS
	Personal Care $	Industrial & Environmental $	Unallocated $	$
31 December 2005				
Segment revenue	923,626	596,861	217,165	1,737,652
Segment result	(795,780)	(514,245)	(187,105)	(1,497,130)
31 December 2004				
Segment revenue	400,403	136,163	71,330	607,896
Segment result	(1,103,890)	(375,396)	(196,654)	(1,675,940)

6. CHANGES IN COMPOSITION OF ENTITY

Since the last annual reporting date (30 June 2005), there has been no material change in the composition of the entity.

7. DISCONTINUED OPERATIONS

Since the last annual reporting date, there have been no business operations discontinued.

8. CONTINGENT ASSETS AND LIABILITIES

Since the last annual reporting date, there has been no material change of any contingent assets or contingent liabilities.

9. EVENTS AFTER THE BALANCE SHEET DATE

In February 2006, Advanced Nano signed an agreement with the Cornelius Group (UK) for their Industrial Division to become exclusive agents for the sale and distribution of NanoZ® in UK, Ireland and Europe (replacing Buhler AG in that role).

There have been no other material events occur subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.

10. ADDITIONAL INFORMATION

For the purposes of the Condensed Cash Flow Statement, cash and cash equivalents comprise the following at 31 December:

	CONSOLIDATED	
	31-Dec-2005 $	31-Dec-2004 $
Cheque account	77,078	1,423,511
USD account	77,291	231,945
Cash on deposit	6,947,780	-
	7,102,149	1,655,456

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Advanced Nanotechnology Limited, we state that:

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity:

  (i) give a true and fair view of the financial position as at 31 December 2005 and the performance for the half-year ended on that date of the consolidated entity; and
  (ii) comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and

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

On behalf of the Board:

WH Clough (Chairman)
Director

PG McCormick (CEO)
Director

Perth, 3 March 2006

ERNST & YOUNG

■ The Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000
Australia

GPO Box M939
Perth WA 6843

■ Tel 61 8 9429 2222
Fax 61 8 9429 2436

Independent review report to members of Advanced Nanotechnology Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity and accompanying notes to the financial statements for the consolidated entity comprising both Advanced Nanotechnology Limited (the company) and the entities it controlled during the half year, and the directors' declaration for the company, for the period ended 31 December 2005.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity, and that complies with Accounting Standard AASB 134 "Interim Financial Reporting", in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

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

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

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

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Statement

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

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

- (i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2005 and of its performance for the half-year ended on that date; and
- (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and

(b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Ernst & Young

T. Tidy

V W Tidy
Partner
Perth
3 March 2006

Liability limited by a scheme approved under Professional Standards Legislation.