
ASX ANNOUNCEMENT (ASX: ANO)

27 FEBRUARY 2007

FURTHER INFORMATION

Paul McCormick, Chief Executive Officer

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HALF YEAR REPORT Continued Revenue and Margin Growth

Advanced Nanotechnology Limited (Advanced Nano or the Company) today announced its results for the half-year ended 31 December 2006.

HIGHLIGHTS

- Sales to customers for the first half of the 2007 financial year totalled \$1,717,392, an increase of approximately 13% over the December 2005 half-year sales of \$1,520,487. Total revenue increased from \$1,737,652 to \$1,867,463 with finance revenue decreasing from \$217,165 to \$150,071 for the half-year as interest income reduced.
- Gross profit margins (sales to customers less cost of goods sold) increased to 30% of sales to customers, from 23% in the December 2005 half-year (\$513,358 compared to \$356,598) with a substantial increase achieved in the second quarter. The Company expects to see further increases in gross profit margins in the second half as benefits are realised from the introduction of lower cost products and increased utilisation of fixed manufacturing overheads.
- Other income increased from \$35,501 to \$166,601 associated with its recently awarded \$1,947,755 Commercial Ready grant.
- Total spending on research and product development activities increased by 46% from \$341,128 to \$497,397 due to the focus on scale-up activities associated with the launch of the new NanoZ[®]-AQ and ZinClear-IM[™] products and the commencement of projects associated with the Commercial Ready grant. Of the \$497,397 December 2006 total R&D spend, \$275,016 was expensed and \$222,381 was capitalised (previous corresponding period \$306,664 and \$34,464 respectively).
- Expenditure on business development, sales and marketing totalled \$410,467, up 106% from \$199,105 for the December 2005 half-year. Advanced Nano is increasing its resources and investment in these activities to respond to opportunities available internationally for increasing sales of its existing and future products.
- Other expenses and overheads (before depreciation, amortisation and other non-cash items) decreased by 3% from \$1,072,162 to \$1,036,222.
- Advanced Nano's net result (loss) before non-cash items (refer table below) was \$891,675 compared to a loss of \$968,667 in the December 2005 half-year, an improvement of 8% (\$76,992).
- Non-cash expense items were depreciation and amortisation not included in cost of goods sold of \$411,483 (previous corresponding period \$442,443) and \$326,192 associated with the issue of employee share options (previous corresponding period \$86,020).
- Overall, Advanced Nano's loss for the first half of 2007 was \$1,629,350. This represents an increase of \$132,220 or 9% compared to the 2006 half-year loss of \$1,497,130.

FINANCIAL SUMMARY

	Dec 2006	Dec 2005	Change		
	\$	\$			
Revenue from sale of goods					
Personal Care	589,616	923,626	(334,010)	Decreased	36%
Industrial & Environmental	<u>1,127,776</u>	<u>596,861</u>	<u>530,915</u>	Increased	89%
Total revenue from sale of goods	1,717,392	1,520,487	196,905	Increased	13%
Finance revenue	<u>150,071</u>	<u>217,165</u>	<u>(67,094)</u>	Decreased	31%
Total revenue from continuing operations	1,867,463	1,737,652	129,811	Increased	7%
Cost of goods sold	<u>(1,204,034)</u>	<u>(1,163,889)</u>	<u>(40,145)</u>	Increased	3%
Gross profit (including finance revenue)	663,429	573,763	89,666	Increased	16%
Gross profit (excluding finance revenue)	513,358	356,598	156,760	Increased	44%
As a % of revenue from sale of goods	30%	23%			
Other income	166,601	35,501	131,100	Increased	369%
Expenses and overheads					
Expensed R&D and product development	(275,016)	(306,664)	31,648	Decreased	10%
Business development, sales and marketing	(410,467)	(199,105)	(211,362)	Increased	106%
Corporate and other expenses and overheads	<u>(1,036,222)</u>	<u>(1,072,162)</u>	<u>35,940</u>	Decreased	3%
Total expenses and overheads	<u>(1,721,705)</u>	<u>(1,577,931)</u>	<u>(143,774)</u>	Increased	9%
Net result (loss) before non-cash items	(891,675)	(968,667)	76,992	Improved	8%
Non-cash items not included in above					
Depreciation and amortisation (not included in COGS)	(411,483)	(442,443)	30,960	Decreased	7%
Options expense	<u>(326,192)</u>	<u>(86,020)</u>	<u>(240,172)</u>	Increased	279%
Net (loss) from continuing operations	(1,629,350)	(1,497,130)	(132,220)	Increased	9%

PRODUCT REVENUES*Personal Care Products*

Personal Care sales rebounded very strongly in the second (December) quarter to \$528,688 following subdued first (September) quarter sales of \$60,928. The increase in sales in the December quarter was the result of increasing sales of our existing products as well as an increase in our customer base. Sales of Personal Care products for the first half of the 2007 financial year represented a decrease of 36% over the previous corresponding period.

On the basis of current orders and market feedback, the Company expects that its sales revenues for the current (March 2007) quarter will exhibit increased sales over recent quarters. Due to customers being familiar with our existing products, Advanced Nano is seeing a more rapid take-up of our new products such as ZinClear-IM™ than would otherwise be expected based on industry experience.

Industrial and Environmental Products

Sales of Industrial & Environmental products almost doubled in the December 2006 half-year relative to December 2005, up 89% from \$596,861 to \$1,127,776. This result was dominated by increased sales of Envirox™ to Oxonica plc in relation to the supply of Envirox™⁽¹⁾ to Petrol Ofisi, Turkey.

First deliveries of NanoZ[®]-AQ, Advanced Nano's new water-based UV absorber for low volatile organic compound (VOC) clear paints and varnishes, were made in the first half of the 2007 financial year to a European customer. UK-based Cornelius Group, Advanced Nano's exclusive agents for the sale and distribution of Advanced Nano's industrial products in Europe, continues to report ongoing positive feedback from potential customers.

(1) Envirox™ is a trademark of the Oxonica group.

RESEARCH AND PRODUCT DEVELOPMENT

As noted above, the Company's spending on research and development and product development increased by 46% to \$497,397. This reflects spending on the launch and scale-up for new products, including NanoZ[®]-AQ and ZinClear-IM[™], and the commencement of research into transparent functional coatings and films which is supported by the Federal Government's Commercial Ready grant funding on a dollar-for-dollar basis.

Significant efforts were also directed towards the implementation of process improvements aimed at reducing variable manufacturing costs of existing products and the installation and commissioning of new production equipment.

BUSINESS DEVELOPMENT, SALES AND MARKETING

The Company believes that its increased efforts in Business Development, Sales and Marketing will give additional momentum to future sales growth. Accordingly, it has recently restructured product development, sales and marketing activities around the four key market segments which Advanced Nano is targeting with its commercial products – Energy & Emerging Technologies; Personal Care & Life Sciences; Plastics & Polymers; and Coatings, Inks & Textiles. The Company expects that these organisational developments will substantially improve Advanced Nano's ability to formulate and market profitable solutions for customer end-market needs. With these enhancements to our marketing capabilities, Advanced Nano believes that all four target segments offer the prospect of excellent growth.

The Company is also strengthening the breadth and depth of its distribution network, with new distributors being evaluated in North America, China, Taiwan and Europe.

OVERHEADS AND EXPENSES

Advanced Nano's total expenses and overheads (including non-cash items) for the December 2006 half-year were \$2,459,380, up 17% from \$2,106,394 in the previous corresponding period. Commentary on the following expenses is provided below:

	Dec 2006	Dec 2005	Change		
	\$	\$			
Total expenses and overheads from above table:					
Expensed R&D and product development	275,016	306,664	(31,648)	Decreased	10%
Business development, sales and marketing	410,467	199,105	211,362	Increased	106%
Corporate and other expenses and overheads	1,036,222	1,072,162	(35,940)	Decreased	3%
Depreciation and amortisation (not included in COGS)	411,483	442,443	(30,960)	Decreased	7%
Options expense	326,192	86,020	240,172	Increased	279%
	<u>2,459,380</u>	<u>2,106,394</u>	<u>352,986</u>	Increased	17%
Reconciliation with expenses and overheads as disclosed in income statement:					
Labour & personnel expenses	1,506,261	1,233,445	272,816	Increased	22%
Travel and related expenses	108,479	59,273	49,206	Increased	83%
Occupancy expenses	53,941	63,910	(9,969)	Decreased	16%
Other operating costs	29,912	-	29,912	Increased	100%
Corporate overheads	257,746	235,351	22,395	Increased	10%
Sales & marketing expenses	69,886	49,490	20,396	Increased	41%
Depreciation & amortisation	411,483	442,443	(30,960)	Decreased	7%
Other expenses	9,823	10,335	(512)	Decreased	5%
Finance costs	11,849	12,147	(298)	Decreased	2%
	<u>2,459,380</u>	<u>2,106,394</u>	<u>352,986</u>	Increased	17%

- Labour and personnel expenses – the principal reason behind the increase in the 2007 half-year total is a non-cash expense of \$326,192 associated with the issue of employee share options (previous corresponding period \$86,020). Excluding the impact of the options

expense, December 2006 labour and personnel expenses were \$1,180,069 compared to \$1,147,425 in the previous period. With the exception of the expense associated with options issued in August 2006 (refer Half-Year Report, note 9), the expense associated with existing options will cease in February in line with their vesting date;

- Underlying labour and personnel expenses increased in both business development (up \$182,212) and research and product development areas (up \$92,526). These areas are also expected to further increase in the second half as the Company's restructuring takes full effect. R&D labour and personnel expenses recognised in the income statement has reduced in the first half due to the capitalisation of labour costs associated with various product development and scale-up activities;
- Travel and related expenses – increased by 83% as the Company responded to the strong interest in its technologies and products across an increasing range of applications. These expenses include customer visits, along with attendance at international conferences and trade shows;
- Occupancy expenses – decreased by 16% during the first half. In the second half, the Company will open a new Technical Centre at Technology Park, Perth, approx. 5 km's from its production and corporate facilities;
- Other operating costs – relates to consumables, chemicals and other operating costs which are consumed in research and development and other non production activities;
- Corporate overheads – a net increase of 10% as the Company significantly expanded its investor relations activities, offset by reductions in insurance and legal fees;
- Sales and marketing expenses – increase of 41% reflects additional investment in overseas marketing, including sample formulations for planned product launches and additional brochures and marketing materials. The cost of shipping and producing samples has also increased substantially in the first half to support new product launches for ZinClear-IM™ and NanoZ®-AQ;
- Depreciation and amortisation expenses – this is predominantly the amortisation of the Company's intellectual property portfolio. This item excludes plant depreciation and product development amortisation which has been included in cost of goods sold (December 2006: \$167,295 and December 2005: \$105,370); and
- Other expenses and finance expenses – in line with the previous half-year period.

OUTLOOK FOR FINANCIAL YEAR 2007

Advanced Nano's Directors believe that the revenue outlook for the 2007 financial year remains encouraging notwithstanding disappointing first quarter sales in the Personal Care sector.

In the Personal Care sector, Directors believe that the first commercial sales of its new ZinClear-IM™ product will drive demand, particularly in the U.S. market. Initial feedback from lead customers testing formulated products is positive and the Company believes that the lower cost of ZinClear-IM™ will lead to accelerated demand as Advanced Nano enters the higher volume segments of the suncare market with a competitively priced product.

Sales of the Alusion® product family are also expected to increase in the second half as customers increase volumes of existing product lines and launch new products.

In the Industrial and Environmental sector, revenue will continue to be driven to a substantial degree by sales to Oxonica in support of Oxonica's supply to Petrol Ofisi, Turkey and used by Petrol Ofisi to evaluate market acceptance of the new enhanced fuel within its national market.

Recent feedback from European customers also underlines the interest in the new NanoZ®-AQ dispersions, with Advanced Nano's distributor, Cornelius, continuing to direct significant resources into the marketing of these products.

APPENDIX 4D – HALF YEAR REPORT - 31 DECEMBER 2006

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 2006 to 31 December 2006. The previous corresponding period is 1 July 2005 to 31 December 2005.

2. RESULTS FOR ANNOUNCEMENT TO THE MARKET.

2.1	Revenue from ordinary activities	Up	129,811	7%	To	1,867,463	From	1,737,652
2.2	Profit/(loss) from ordinary activities after tax attributable to members	Up	(132,220)	9%	To	(1,629,350)	From	(1,497,130)
2.3	Net profit/(loss) for the period attributable to members	Up	(132,220)	9%	To	(1,629,350)	From	(1,497,130)
2.4	The Company does not propose to pay a dividend in respect of the 2007 financial year.							
2.4	Not applicable.							
2.4	Refer pages 1 to 4.							

3. NET TANGIBLE ASSETS PER SECURITY.

Current period – 3.7 cents per share (31 December 2006).
Previous corresponding period – 5.2 cents per share (31 December 2005).

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

Not applicable.

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.

Not applicable.

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 2007 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 2007 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 2006

CONTENTS	PAGE
CORPORATE INFORMATION	2
DIRECTORS' REPORT	3
FINANCIAL REPORT	
Condensed Income Statement	7
Condensed Balance Sheet	8
Condensed Cash Flow Statement	9
Condensed Statement of Changes in Equity	10
Notes to the Financial Statements	11
Note 1. Corporate information	11
Note 2. Summary of significant accounting policies	11
Note 3. Segment information	13
Note 4. Revenues and expenses	14
Note 5. Cash and cash equivalents	15
Note 6. Dividends paid and proposed	15
Note 7. Inventories	15
Note 8. Property, plant and equipment	16
Note 9. Share-based payment plans	16
Note 10. Commitments and contingencies	16
Note 11. Contributed equity	17
Note 12. Related party disclosures	17
Note 13. Events after the balance sheet date	17
DIRECTORS' DECLARATION	18
INDEPENDENT REVIEW REPORT TO THE MEMBERS OF ADVANCED NANOTECHNOLOGY LIMITED	19
AUDITOR'S INDEPENDENCE DECLARATION	21

CORPORATE INFORMATION

Advanced Nanotechnology Limited

ACN: 079 845 855

ABN: 54 079 845 855

Directors

William Harold Clough AO, OBE (Non-Executive Chairman)
David Charles Griffiths (Non-Executive Director)
Robert Michael Alexander Mangioni (Non-Executive Director)
Bruce John Cameron (Non-Executive Director)
Paul Gerard McCormick (Chief Executive Officer)

Company Secretary

Deana Cesari (Chief Financial Officer)

Registered Office

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Solicitors

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PERTH WA 6000
Telephone: +61 (8) 9211 7777
Facsimile: +61 (8) 9211 7878

Share Registrar

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Perth WA 6000
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Auditor

Ernst & Young
11 Mounts Bay Road
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Telephone: +61 (8) 9429 2222
Facsimile: +61 (8) 9429 2436

Website

www.advancednanotechnology.com

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 2006 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).
- Mr. Bruce Cameron (Non-Executive Director), appointed 18 December 2006.
- Dr. Paul McCormick (Chief Executive Officer).

Review and Results of Operations

Highlights

- Sales to customers for the first half of the 2007 financial year totalled \$1,717,392, an increase of approximately 13% over the December 2005 half-year sales of \$1,520,487. Total revenue increased from \$1,737,652 to \$1,867,463 with finance revenue decreasing from \$217,165 to \$150,071 for the half-year as interest income reduced.
- Gross profit margins (sales to customers less cost of goods sold) increased to 30% of sales to customers, from 23% in the December 2005 half-year (\$513,358 compared to \$356,598) with a substantial increase achieved in the second quarter. The Company expects to see further increases in gross profit margins in the second half as benefits are realised from the introduction of lower cost products and increased utilisation of fixed manufacturing overheads.
- Other income increased from \$35,501 to \$166,601 associated with its recently awarded \$1,947,755 Commercial Ready grant.
- Total spending on research and product development activities increased by 46% from \$341,128 to \$497,397 due to the focus on scale-up activities associated with the launch of the new NanoZ[®]-AQ and ZinClear-IM[™] products and the commencement of projects associated with the Commercial Ready grant. Of the \$497,397 December 2006 total R&D spend, \$275,016 was expensed and \$222,381 was capitalised (previous corresponding period \$306,664 and \$34,464 respectively).
- Expenditure on business development, sales and marketing totalled \$410,467, up 106% from \$199,105 for the December 2005 half-year. Advanced Nano is increasing its resources and investment in these activities to respond to opportunities available internationally for increasing sales of its existing and future products.
- Other expenses and overheads (before depreciation, amortisation and other non-cash items) decreased by 3% from \$1,072,162 to \$1,036,222 notwithstanding inflationary increases.
- Advanced Nano's net result (loss) before non-cash items (refer table below) was \$891,675 compared to a loss of \$968,667 in the December 2005 half-year, an improvement of 8% (\$76,992).
- Non-cash expense items were depreciation and amortisation not included in cost of goods sold of \$411,483 (previous corresponding period \$442,443) and \$326,192 associated with the issue of employee share options (previous corresponding period \$86,020).
- Overall, Advanced Nano's loss for the first half of 2007 was \$1,629,350. This represents an increase of \$132,220 or 9% compared to the 2006 half-year loss of \$1,497,130.

Financial Summary

	Dec 2006	Dec 2005	Change		
	\$	\$			
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Industrial & Environmental	1,127,776	596,861	530,915	Increased	89%
Total revenue from sale of goods	1,717,392	1,520,487	196,905	Increased	13%
Finance revenue	150,071	217,165	(67,094)	Decreased	31%
Total revenue from continuing operations	1,867,463	1,737,652	129,811	Increased	7%
Cost of goods sold	(1,204,034)	(1,163,889)	(40,145)	Increased	3%
Gross profit (including finance revenue)	663,429	573,763	89,666	Increased	16%
Gross profit (excluding finance revenue)	513,358	356,598	156,760	Increased	44%
<i>As a % of revenue from sale of goods</i>	30%	23%			

DIRECTORS' REPORT continued**Review and Results of Operations** continuedFinancial Summary continued

	Dec 2006	Dec 2005	Change		
	\$	\$			
Other income	166,601	35,501	131,100	Increased	369%
Expenses and overheads					
Expensed R&D and product development	(275,016)	(306,664)	31,648	Decreased	10%
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Product Revenues*Personal Care Products*

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Research and Product Development

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DIRECTORS' REPORT continued**Review and Results of Operations** continuedOverheads and Expenses

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- Labour and personnel expenses – the principal reason behind the increase in the 2007 half-year total is a non-cash expense of \$326,192 associated with the issue of employee share options (previous corresponding period \$86,020). Excluding the impact of the options expense, December 2006 labour and personnel expenses were \$1,180,069 compared to \$1,147,425 in the previous period. With the exception of the expense associated with options issued in August 2006 (refer Financial Report, note 9), the expense associated with existing options will cease in February in line with their vesting date;
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- Depreciation and amortisation expenses – this is predominantly the amortisation of the Company's intellectual property portfolio. This item excludes plant depreciation and product development amortisation which has been included in cost of goods sold (December 2006: \$167,295 and December 2005: \$105,370); and
- Other expenses and finance expenses – in line with the previous half-year period.

DIRECTORS' REPORT continued**Review and Results of Operations** continuedOutlook for financial year 2007

Advanced Nano's Directors believe that the revenue outlook for the 2007 financial year remains encouraging notwithstanding disappointing first quarter sales in the Personal Care sector.

In the Personal Care sector, Directors believe that the first commercial sales of its new ZinClear-IM™ product will drive demand, particularly in the U.S. market. Initial feedback from lead customers testing formulated products is positive and the Company believes that the lower cost of ZinClear-IM™ will lead to accelerated demand as Advanced Nano enters the higher volume segments of the sun care market with a competitively priced product.

Sales of the Alusion® product family are also expected to increase in the second half as customers increase volumes of existing product lines and launch new products.

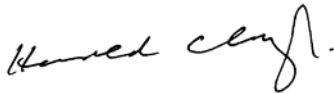
In the Industrial and Environmental sector, revenue will continue to be driven to a substantial degree by sales to Oxonica in support of Oxonica's supply to Petrol Ofisi, Turkey and used by Petrol Ofisi to evaluate market acceptance of the new enhanced fuel within its national market.

Recent feedback from European customers also underlines the interest in the new NanoZ®-AQ dispersions, with Advanced Nano's distributor, Cornelius, continuing to direct significant resources into the marketing of these products.

Auditor's Independence Declaration

We have obtained an Independence Declaration from our auditors, Ernst & Young, as set out on page 21 on the Half-Year Report.

Signed in accordance with a resolution of the Directors:



WH Clough (Chairman)
Director



PG McCormick (CEO)
Director

Perth, 27 February 2007

CONDENSED INCOME STATEMENT
For the half-year ended 31 December 2006

	Notes	CONSOLIDATED	
		31-Dec-06	31-Dec-05
		\$	\$
Continuing operations			
Revenue	4(a)(i)	1,867,463	1,737,652
Cost of goods sold		(1,204,034)	(1,163,889)
Gross profit		663,429	573,763
Other income	4(a)(ii)	166,601	35,501
Labour and personnel expenses	4(a)(vii)	(1,506,261)	(1,233,446)
Travel and related expenses		(108,479)	(59,273)
Occupancy expenses		(53,941)	(63,909)
Other operating costs		(29,912)	-
Corporate overheads		(257,746)	(235,351)
Sales and marketing expenses		(69,886)	(49,490)
Depreciation and amortisation	4(a)(v)	(411,483)	(442,443)
Other expenses		(9,823)	(10,335)
Finance costs	4(a)(iii)	(11,849)	(12,147)
(Loss) before income tax		(1,629,350)	(1,497,130)
Income tax expense		-	-
(Loss) after tax from continuing operations		(1,629,350)	(1,497,130)
Net (loss) attributable to members of parent		(1,629,350)	(1,497,130)
(Loss) per share (cents per share)			
- basic for (loss) for the year		(0.97)	(0.89)
- diluted for (loss) for the year		(0.97)	(0.89)
- dividends paid per share		Nil	Nil

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

CONDENSED BALANCE SHEET

As at 31 December 2006

	Notes	CONSOLIDATED	
		31-Dec-06	30-Jun-06
		\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents	5	4,247,710	5,718,870
Trade and other receivables		747,631	504,286
Inventories		453,659	277,788
Prepayments		74,380	17,085
Other financial assets		5,534	36,971
Total Current Assets		5,528,914	6,555,000
Non-Current Assets			
Other financial assets		261,585	261,535
Property, plant and equipment		1,945,867	1,706,009
Intangible assets		6,537,548	6,669,146
Total Non-Current Assets		8,745,000	8,636,690
TOTAL ASSETS		14,273,914	15,191,690
LIABILITIES			
Current Liabilities			
Trade and other payables		194,732	172,896
Interest-bearing loans and borrowings		33,317	33,317
Provisions		107,486	176,533
Deferred income		120,461	53,463
Other liabilities		567,904	266,215
Total Current Liabilities		1,023,900	702,424
Non-Current Liabilities			
Interest-bearing loans and borrowings		195,214	211,873
Provisions		174,655	102,353
Deferred income		125,040	116,777
Total Non-Current Liabilities		494,909	431,003
TOTAL LIABILITIES		1,518,809	1,133,427
NET ASSETS		12,755,105	14,058,263
Equity			
Issued capital	11	28,012,445	28,012,445
Option premium reserve		663,445	337,253
Accumulated losses		(15,920,785)	(14,291,435)
Parent Interests		12,755,105	14,058,263
TOTAL EQUITY		12,755,105	14,058,263

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 2006

	Notes	CONSOLIDATED	
		31-Dec-06	31-Dec-05
		\$	\$
Cash flows from operating activities			
Receipts from customers		1,490,034	1,298,935
Payments to suppliers and employees		(2,617,670)	(2,557,692)
Receipt of government grants		241,394	-
Interest received		181,506	216,352
Borrowing costs		(11,850)	(11,850)
Net cash (outflows) from operating activities		<u>(716,586)</u>	<u>(1,054,255)</u>
Cash flows from investing activities			
Purchase of property, plant and equipment		(463,614)	(177,051)
Purchase of patents and trademarks		(243,304)	(46,814)
Net cash (outflows) from investing activities		<u>(706,918)</u>	<u>(223,865)</u>
Cash flows from financing activities			
Transaction costs of issue of shares		-	(11,604)
Repayment of borrowings		(16,659)	(16,659)
Net cash (outflows) from financing activities		<u>(16,659)</u>	<u>(28,263)</u>
Net (decrease) in cash and cash equivalents held		(1,440,163)	(1,306,383)
Cash and cash equivalents at the beginning of the year		5,718,870	8,405,549
Exchange rate adjustment		(30,997)	2,983
Cash and cash equivalents at the end of the year	5	<u>4,247,710</u>	<u>7,102,149</u>

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 2006

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

	Attributable to equity holders of the group			
	Issued capital	Option premium reserve	Accumulated losses	Total
	\$	\$	\$	\$
As 1 July 2006	28,012,445	337,253	(14,291,435)	14,058,263
Total income and expense for the period recognised directly in equity				
(Loss) for the period	-	-	(1,629,350)	(1,629,350)
Total (expense) for the period	-	-	(1,629,350)	(1,629,350)
Share issue costs	-	-	-	-
Cost of share-based payment	-	326,192	-	326,192
At 31 December 2006	<u>28,012,445</u>	<u>663,445</u>	<u>(15,920,785)</u>	<u>12,755,105</u>

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 2006

1. CORPORATE INFORMATION

The financial report of Advanced Nanotechnology Limited for the half-year ended 31 December 2006 was authorised for issue in accordance with a resolution of the Directors on 27 February 2007. Advanced Nanotechnology Limited is a company incorporated in Australia and limited by shares, which are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities of the Group are described in Note 3.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 2006.

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 2006 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a) Basis of preparation

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.

The financial report is presented in Australian dollars.

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

(b) Significant accounting policies

The half-year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2006, except for the adoption of amending standards mandatory for annual periods beginning on or after 1 January 2006, as described in Note 2(d).

(c) Basis of consolidation

The half-year consolidated financial statements comprise the financial statements of Advanced Nanotechnology Limited and its subsidiaries as at 31 December 2006 (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.

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued**(d) Changes in accounting policies**

Australian Accounting Standards that have recently been issued or amended and are effective from 1 July 2006 are outlined in the table below.

AASB Amendment	Affected Standard(s)	Nature of Change to accounting policy	Application date of standard	Application date for Group
2005-5	AASB 1: <i>First-time adoption of AIFRS</i> , AASB 139: <i>Financial Instruments: Recognition and Measurement</i>	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-6	AASB 3: <i>Business Combinations</i>	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ending 30 June 2007 are outlined in the table below:

AASB Amendment	Affected Standard(s)	Nature of Change to accounting policy	Application date of standard	Application date for Group
2005-10	AASB 132: <i>Financial Instruments: Disclosure and Presentation</i> , AASB 101: <i>Presentation of Financial Statements</i> , AASB 114: <i>Segment Reporting</i> , AASB 117: <i>Leases</i> , AASB 133: <i>Earnings per Share</i> , AASB 139: <i>Financial Instruments: Recognition and Measurement</i> , AASB 1: <i>First-time adoption of AIFRS</i> , AASB 4: <i>Insurance Contracts</i> , AASB 1023: <i>General Insurance Contracts</i> , and AASB 1038: <i>Life Insurance Contracts</i>	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007
New Standard	AASB 7 <i>Financial Instruments: Disclosures</i>	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007

The following amendments are not applicable to the Group and therefore have no impact.

AASB Amendment	Affected Standard(s)
2005-1	AASB 139: <i>Financial Instruments: Recognition and Measurement</i>
2005-2	AASB 1023: <i>General Insurance Contracts</i>
2005-4	AASB 139: <i>Financial Instruments: Recognition and Measurement</i> , AASB 132: <i>Financial Instruments: Disclosure and Presentation</i> , AASB 1: <i>First-time adoption of AIFRS</i> , AASB 1023: <i>General Insurance Contracts</i> , and AASB 1038: <i>Life Insurance Contracts</i>
2005-9	AASB 4: <i>Insurance Contracts</i> , AASB 1023: <i>General Insurance Contracts</i> , AASB 139: <i>Financial Instruments: Recognition and Measurement</i> , and AASB 132: <i>Financial Instruments: Disclosure and Presentation</i>
2005-12	AASB 1038: <i>Life Insurance Contracts</i> , and AASB 1023: <i>General Insurance Contracts</i>
2005-13	AAS 25: <i>Financial Reporting by Superannuation Plans</i>
2006-1	AASB 121: <i>The Effects of Changes in Foreign Exchange rate</i>
2006-2	AASB 1: <i>First-time Adoption of AIFRS</i>

NOTES TO THE FINANCIAL STATEMENTS**For the half-year ended 31 December 2006****3. SEGMENT INFORMATION**

The Group comprises of the following business segments:

- The Personal Care segment produces and distributes a variety of dispersions and nanopowder products to the cosmetic and sunscreen industry.
- The Industrial and Environmental segment produces and distributes a variety of products used as fuel additives, advanced coatings and films or for UV protection for timber products.

Business Segments

The following table presents the revenue and (loss) information regarding business segments for the half-year periods ended 31 December 2006 and 31 December 2005.

	<u>CONTINUING OPERATIONS</u>		<u>TOTAL OPERATIONS</u>
	<u>Personal Care</u> \$	<u>Industrial & Environmental</u> \$	\$
31 December 2006			
Revenue			
Sales to customers	589,616	1,127,776	1,717,392
Total segment revenue	<u>589,616</u>	<u>1,127,776</u>	1,717,392
Unallocated income			150,071
Total income			<u>1,867,463</u>
Result			
Segment result	<u>(559,389)</u>	<u>(1,069,961)</u>	<u>(1,629,350)</u>
(Loss) before tax			<u>(1,629,350)</u>
31 December 2005			
Revenue			
Sales to customers	923,626	596,861	1,520,487
Total segment revenue	<u>923,626</u>	<u>596,861</u>	1,520,487
Unallocated income			217,165
Total income			<u>1,737,652</u>
Result			
Segment result	<u>(909,438)</u>	<u>(587,692)</u>	<u>(1,497,130)</u>
(Loss) before tax			<u>(1,497,130)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2006

4. REVENUES 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:

Half-year ended 31 December	CONSOLIDATED	
	Dec-2006	Dec-2005
	\$	\$
(i) Revenue		
Sale of goods	1,717,392	1,520,487
Finance revenue	150,071	217,165
	<u>1,867,463</u>	<u>1,737,652</u>
<i>Breakdown of finance revenue:</i>		
Bank interest receivable	150,071	217,165
Total finance revenue	<u>150,071</u>	<u>217,165</u>
(ii) Other income		
Government grants released	166,601	35,501
Total other income	<u>166,601</u>	<u>35,501</u>
(iii) Finance costs		
Finance charges payable on Chattel Mortgages	<u>11,849</u>	<u>12,147</u>
(iv) Included in cost of sales		
Depreciation	108,764	84,485
Amortisation of development costs	70,054	32,407
Net foreign exchange differences	34,387	(7,243)
	<u>213,205</u>	<u>109,649</u>
(v) Included in depreciation and amortisation		
Depreciation	95,114	127,022
Amortisation of patents, trademarks and licences	304,847	303,899
Amortisation of development costs	11,522	11,522
	<u>411,483</u>	<u>442,443</u>
(vi) Lease payments and other expenses included in income statement		
Included in cost of sales:		
Minimum lease payments - operating lease	<u>26,614</u>	<u>20,053</u>
(vii) Employee benefits expense		
Wages and salaries and oncosts	1,106,618	1,020,375
Directors fees	74,978	76,952
Annual and long service leave provision	(1,527)	50,099
Share based payments expense	326,192	86,020
	<u>1,506,261</u>	<u>1,233,446</u>
(viii) Research and development costs		
Research and development costs included in the income statement	<u>275,016</u>	<u>306,664</u>

NOTES TO THE FINANCIAL STATEMENTS**For the half-year ended 31 December 2006****4. REVENUES AND EXPENSES** continued**(b) Seasonality of operations**

In the Personal Care division, customers' end products using Advanced Nano's ingredients, typically see some seasonality in the spring quarter of each season as they finalise their summer launches. As Advanced Nano sells its 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.

The seasonality impact has also been reduced as Advanced Nano's revenue from the sales of products in its Industrial and Environmental division have increased significantly.

(c) Revision of accounting estimates

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

(d) Comparative information restated

The following information reported in the financial statements of Advanced Nano for the half-year ended 31 December 2005, has been restated in order to be consistent with the method of calculation used for the year ended 30 June 2006, and for the half-year ended 31 December 2006.

	Dec-2005 \$
Cost of goods sold as per the 31 December 2005 half-year report	967,017
Add items not previously included	
Plant depreciation (previously disclosed in depreciation and amortisation)	84,485
Amortisation of product development costs (previously disclosed in depreciation and amortisation)	20,885
Rent and outgoings of factories (previously disclosed in occupancy costs)	91,502
Cost of good sold as per the 31 December 2006 half-year report	<u>1,163,889</u>
Labour and personnel as per the 31 December 2005 half-year report	1,147,426
Add items not previously included	
Options expense (previously disclosed in other expenses)	86,020
Labour and personnel as per the 31 December 2006 half-year report	<u>1,233,446</u>

5. CASH AND CASH EQUIVALENTS

For the purposes of the half-year condensed cash flow statement, cash and cash equivalents are comprised of the following:

	CONSOLIDATED		
	Dec-2006	Jun-2006	Dec-2005
	\$	\$	\$
Cheque account	268,997	83,750	77,078
USD account	499,501	132,693	77,291
Cash on deposit	3,479,212	5,502,427	6,947,780
	<u>4,247,710</u>	<u>5,718,870</u>	<u>7,102,149</u>

6. DIVIDENDS PAID AND PROPOSED

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

7. INVENTORIES

During the half-year ended 31 December 2006, there were no inventory write-downs recognised as an expense for the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2006

8. PROPERTY, PLANT & EQUIPMENT

During the half-year ended 31 December 2006, the Group acquired assets with a cost of \$463,614 (2005: \$292,979). Assets with a net book value of \$13,170 were written off by the Group during the half-year ended 31 December 2006 (2005: \$26,902), resulting in a loss on disposal of \$13,170 (2005: \$26,902).

9. SHARE-BASED PAYMENT PLANS

On 14 August 2006, 3,000,000 share options were issued to Mr. Thibaut Mortier (Vice President – Global Sales, Marketing and Business Development) being the date his employment with Advanced Nano commenced. The options were issued in four tranches each with different terms and conditions as detailed below

<u>Tranche 1:</u>	Number of options: 1,000,000 Vesting date: 14 August 2008 (2 years from the Commencement Date) Expiry date: 13 August 2011 (5 years from the Commencement Date) Exercise price: 30.8 cents per ordinary share
<u>Tranche 2:</u>	Number of options: 1,000,000 Vesting date: 14 August 2008 (2 years from the Commencement Date) Expiry date: 13 August 2011 (5 years from the Commencement Date) Exercise price: Higher of 20 cents or the volume weighted average price (VWAP) calculated over the 10 trading days prior to the Commencement Date
<u>Tranche 3:</u>	Number of options: 500,000 Vesting date: 14 August 2007 (1 year from the Commencement Date), subject to the Executive receiving notice from the Company that the Executive has achieved the KPIs for Year 1 Expiry date: 13 August 2011 (5 years from the Commencement Date) Exercise price: Higher of 20 cents or the VWAP calculated over the 10 trading days prior to the Commencement Date
<u>Tranche 4:</u>	Number of options: 500,000 Vesting date: 14 August 2008 (2 years from the Commencement Date), subject to the Executive receiving notice from the Company that the Executive has achieved the KPIs for Year 2 Expiry date: 13 August 2012 (5 years from the first anniversary of the Commencement Date) Exercise price: Higher of 20 cents or the VWAP calculated over the 10 trading days prior to the first anniversary of the Commencement Date

In September 2006, 3,340,030 share options were granted to employees under the Employee Share Option Plan. The exercise price of the options is \$0.308. The options will become exercisable on 22 February 2007 and expire on 21 February 2010.

In November 2006, 5,911,157 share options were granted to Dr. Paul McCormick under the Employee Share Option Plan. The exercise price of the options is \$0.308. These options replace share options which expired unexercised on 28 June 2006. The options will become exercisable on 22 February 2007 and will expire on 21 February 2010.

The fair value of the options granted is estimated as at the date of grant using a Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the half-year ended 31 December 2006 and 2005:

	2006	2005
Expected volatility (%) ⁽¹⁾	75 - 80%	70%
Risk-free interest rate (%)	5.85% - 5.99%	5.15%
Expected life of option (years)	1.90 - 5.0	2.87
Option exercise price (cents)	20.0 - 30.8	30.8
Weighted average share price at grant date (cents)	13.0 - 15.0	19.0

(1) Based upon historical (actual) volatility of Advanced Nano shares from the date of ASX listing to grant date of options.

10. COMMITMENTS AND CONTINGENCIES**Capital Commitments**

At 31 December 2006 the Group has commitments of \$93,941 (2005: \$115,929) principally for the acquisition of new machinery.

Contingencies

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

On 11 October 2006, Advanced Nano was awarded a grant of \$1,947,755 under the Australian Government's Commercial Ready Program. At 31 December 2006, two instalments have been received from the Commonwealth totalling \$192,286 (GST exclusive), \$95,269 of which was recognised as income during the half-year.

The Commonwealth may, if a termination event occurs, require Advanced Nano to repay so much of the grant as the Commonwealth reasonably determines plus interest. Under the provisions of the grant agreement between Advanced Nano and the Commonwealth, the following events may cause the Commonwealth to terminate the grant:

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2006

10. COMMITMENTS AND CONTINGENCIES continued

- (i) An insolvency event occurs in relation to Advanced Nano;
- (ii) Advanced Nano ceases to carry on business, or a substantial part of its business;
- (iii) Advanced Nano breaches and warranty contained in the deed;
- (iv) There is a change in control or ownership of the Advanced Nano which the Commonwealth reasonably considers has an adverse effect on Advanced Nano's ability to comply with any of its obligations under the deed;
- (v) Advanced Nano commits any breach in respect of which the deed provides a notice of termination may be given; or
- (vi) Advanced Nano commits any breach which the Commonwealth reasonably considers is not capable of remedy.

As none of these events have taken place, as at the date of this report, Advanced Nano has not recognised any liability in relation to the Commercial Ready contract. The above obligations will continue under the terms of the grant for a term of five years after the completion date (currently 31 December 2013).

On 31 July 2004, Advanced Nano's subsidiary Advanced Nano Technologies Pty Ltd (ANT) completed the requirements under a R&D Start grant from the Commonwealth under which ANT received a total of \$2,704,648 in grant funding. Under the terms of the grant the Commonwealth may, if a termination event occurs, require ANT to repay some or all of the Grant paid, plus interest. These obligations will continue under the terms of the grant for five years after the completion date (31 July 2009). The Commonwealth may terminate the deed if:

- (i) ANT is in breach of the deed, that breach is capable of being remedied and the ANT fails to remedy that breach within 21 days of receipt of a notice from the Commonwealth requiring it to do so;
- (ii) ANT is in breach of a warranty set out in the deed;
- (iii) ANT is otherwise in breach of the deed; or
- (iv) ANT is unable or threatens to become unable to pay all of its debts as and when they become due or goes into administration or receivership.

In addition, unless expressly authorised to do so under the deed, ANT must not deal with, or grant or create any encumbrance over its rights under the deed or its interest on the Project Intellectual Property without the prior written consent of the Commonwealth. A change in control of ANT is taken to be dealing with ANT's rights under the deed. Failure to obtain prior written consent may cause, should the Commonwealth reasonably consider that such an event adversely affects the objectives from time to time of the R&D Start Program, the Commonwealth to terminate the deed.

Prior to 24 January 2005, ANT was a joint venture entity between Advanced Nano (50%) and Samsung Corning Co. Ltd (50%). On 24 January 2005, ANT underwent a selective buy back in relation to Samsung Corning Co. Ltd's 50% interest in the joint venture entity. Total consideration for the buy back included the transfer of a 50% interest in certain intellectual property rights. Upon completion of this transaction ANT became a wholly owned subsidiary of Advanced Nano. On 18 January 2005, the Commonwealth gave written consent for the transfer of the 50% interest in the intellectual property. As a result, ANT has not recognised any liability in relation to the R&D Start grant contract.

11. CONTRIBUTED EQUITY

	CONSOLIDATED	
	Dec-2006	Jun-2006
	\$	\$
<i>Ordinary shares</i>		
Issued and paid up capital	28,012,445	28,012,445

12. RELATED PARTY DISCLOSURES

The following table provides the total amount of transactions that were entered into with related parties for the half-year ended 31 December 2006 and 2005:

Related Party	Half-year ended 31 Dec	Sales to related parties \$	Purchases from related parties \$	Amounts owed by related parties \$	Amounts owed to related parties \$
Entities with significant influence					
University of Western Australia	2006	-	23,919	-	-
	2005	-	73,689	-	-
Key management personnel of Advanced Nanotechnology Limited					
Other directors' interests					
Watson Mangoni Lawyers Pty Ltd	2006	-	13,835	-	-
	2005	-	20,655	-	-

13. EVENTS AFTER THE BALANCE SHEET DATE

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

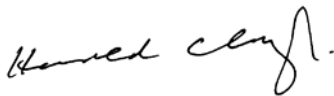
DIRECTORS' DECLARATION

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

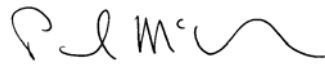
In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position as at 31 December 2006 and the performance for the half-year ended on that date of the consolidated entity; and
 - (ii) complying 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, 27 February 2007

INDEPENDENT REVIEW REPORT

To the members of Advanced Nanotechnology Limited

We have reviewed the accompanying half-year financial report of Advanced Nanotechnology Limited and the entities it controlled during the half-year, which comprises the condensed balance sheet as at 31 December 2006, and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the half-year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001 and other mandatory financial reporting requirements in Australia. As the auditor of Advanced Nanotechnology Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of 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 consolidated entity's financial position as at 31 December 2006 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

V. W. Tidy

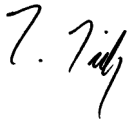
V W Tidy
Partner
Perth
27 February 2007

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 2006, 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



V W Tidy
Partner
27 February 2007