

ASX ANNOUNCEMENT (ASX: ANO)

31 AUGUST 2006

FURTHER INFORMATION

Paul McCormick, Chief Executive Officer

Tel: +61 (8) 9458 0800 / Mob: +61 (407) 381 583

## STRONG REVENUE AND OPERATING MARGIN GROWTH

Advanced Nanotechnology Limited (Advanced Nano or the Company) today announced its results for the year ended 30 June 2006.

### Highlights

- Sales to customers for the 2006 financial year totalled \$2.7 million, an increase of approximately 78% over the 2005 financial year sales of \$1.5 million. Revenue growth is strong in both product segments;
- Gross profit up to 28.2% of total revenues, from 19.7% in 2005. This reflects an increase in the usage of fixed production overheads, an ongoing reduction in direct operating costs and an increase in finance revenue;
- Advanced Nano's Result from Operations (refer table below) has improved from a loss of \$1.7 million in 2005 to a loss of \$0.7 million in 2006;
- Operating expenses and administrative/selling overheads have reduced to \$1.6 million, down from \$2.0 million in 2005 as a higher proportion of total expenses have been allocated to research, product and business development expenditure;
- Expenditure on research and development, new product development, process improvement and new business development has increased to approximately \$1.7 million in 2006 from \$1.2 million last year and reflects an ongoing investment in the breadth of new products and process improvement opportunities available to Advanced Nano. Of this amount, approximately \$1.5 million was expensed in the income statement (FY05: \$1.1 million);
- Overall, Advanced Nano's loss for 2006 was \$3.2 million. This represents a reduction of \$0.4 million or 12% compared to the 2005 loss of \$3.6 million.
- Advanced Nano's Directors believe that the revenue outlook for the 2007 financial year is encouraging.

	2006	2005	Change		
	\$	\$			
<b>Revenue from sale of goods</b>					
Personal Care	1,480,017	719,309	760,708	Increased	106%
Industrial & Environmental	1,190,957	783,203	407,754	Increased	52%
	<u>2,670,974</u>	<u>1,502,512</u>	<u>1,168,462</u>	Increased	78%
Finance revenue	401,472	247,831	153,641	Increased	62%
<b>Total revenue from continuing operations</b>	<b>3,072,446</b>	<b>1,750,343</b>	<b>1,322,103</b>	<b>Increased</b>	<b>76%</b>
Cost of goods sold	<u>(2,205,676)</u>	<u>(1,404,761)</u>	<u>(800,915)</u>		
<b>Gross profit</b>	<b>866,770</b>	<b>345,582</b>	<b>521,188</b>	<b>Increased</b>	<b>151%</b>
Gross profit as a % of total revenue	28.2%	19.7%			
Operating expenses and general overheads	(1,599,875)	(2,043,349)	443,474	Improved	22%
<b>Result from Operations</b>	<b>(733,105)</b>	<b>(1,697,767)</b>	<b>964,662</b>	<b>Improved</b>	<b>57%</b>
Research, product and business development	<u>(1,460,000)</u>	<u>(1,110,000)</u>	<u>(350,000)</u>	Increased	32%
	(2,193,105)	(2,807,767)	614,662	Improved	22%
Other income	96,195	70,130	26,065	Increased	37%
<b>Non-cash items not included in above</b>					
Depreciation and amortisation	(861,689)	(708,214)			
Share of loss of joint venture	-	(116,824)			
Share-based payment expense (employee options)	<u>(197,260)</u>	<u>(11,203)</u>			
	<u>(1,058,949)</u>	<u>(836,241)</u>	<u>(222,708)</u>	Increased	27%
<b>Net (loss) from continuing operations</b>	<b>(3,155,859)</b>	<b>(3,573,878)</b>	<b>418,019</b>	<b>Improved</b>	<b>12%</b>

---

## Product Revenues and Gross Profit Contribution

The 2006 result was in line with the Directors' expectations and is consistent with the Company's ongoing investment in its research, product development and business development activities.

Advanced Nano's CEO, Paul McCormick, stated that during the past year, Advanced Nano has continued to achieve solid progress in developing and commercialising its nanomaterial products. Product sales have continued to grow strongly and new products were introduced to the market in 2006.

### *Personal Care Products*

Revenues for the Company's personal care products more than doubled in 2006, increasing from \$719,309 to \$1,480,017, with sales growth experienced in both ZinClear<sup>®</sup> and Alusion<sup>®</sup> product families.

In April 2006, Advanced Nano completed the task of bringing all ZinClear<sup>®</sup> manufacturing processes in-house, leading to reduced costs, decreased lead times and improved quality. Advanced Nano is also commissioning additional process equipment for Alusion<sup>®</sup> production in anticipation of increased demand for this product.

In May 2006, Advanced Nano launched two new personal care products:

- ZinClear-IM<sup>™</sup> an Index Matched<sup>™</sup> zinc oxide dispersion that achieves superior transparency in larger micron sized zinc oxide particles, and
- ZinClear<sup>®</sup>-Dry, a highly dispersible form of zinc oxide nanopowder that manufacturers can incorporate directly into their sun care formulations.

Advanced Nano is very encouraged by the sales of its personal care products over the past year and believes the introduction of the Company's new ZinClear-IM<sup>™</sup> range, together with its ZinClear<sup>®</sup>-Dry powders and new ZinClear<sup>®</sup>-S dispersions, will continue the Company's growth in this sector.

### *Industrial and Environmental Products*

Sales of the Company's industrial and environmental products increased by 52% from \$783,203 to \$1,190,957 over the full year, with growth dominated by increased sales to Oxonica plc of their Envirox<sup>™</sup> fuel borne nanocatalyst.

In April 2006, Oxonica Materials Limited and Advanced Nano concluded a one-year supply agreement for the manufacture of Envirox<sup>™</sup>. With the purchase, installation and commissioning of new capital equipment, Advanced Nano now ships Envirox<sup>™</sup> in its final bulk packaged form to both Oxonica and/or their final customers.

In July 2006, Advanced Nano completed its deliveries under this agreement through accelerated shipments to support Oxonica's pipeline fill in anticipation of growing demand. In August 2006, Advanced Nano received purchase orders from Oxonica to the value of approximately US\$0.65 million for the remainder of calendar 2006. These orders are to support Oxonica's deliveries to Turkish national oil company, Petrol Ofisi A.S. as they evaluate market acceptance of their new enhanced fuel incorporating Envirox<sup>™</sup>. Advanced Nano and Oxonica are currently discussing terms for the future supply of Envirox<sup>™</sup>.

In February 2006, Advanced Nano strengthened its distribution channels with the appointment of the UK-based Cornelius Group as exclusive agents for the sale and distribution of Advanced Nano's industrial products in Europe. The first product for distribution is NanoZ<sup>®</sup>, Advanced Nano's transparent industrial zinc oxide nanoparticle dispersion for functional coatings to protect wood, plastics and textiles from UV and microbial degradation.

## Research, Product and Business Development

During 2006, Advanced Nano has continued to invest 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 approximately \$1.7 million in these activities during the 2006 financial year. Of this amount, approximately \$1.5 million was expensed in the income statement. This is a considerable increase from the \$1.2 million in 2005 (expensed \$1.1 million) and reflects an ongoing investment in the breadth of new products and process improvement opportunities available to Advanced Nano.

## Research, Product and Business Development continued

Advanced Nano's research and development expenditure for 2006 yielded important innovations such as ZinClear-IM™ and ZinClear®-Dry, work on new processes to enable the production of other products at lower unit cost, development of the NanoZ®-AQ water-based variant of the existing NanoZ® range, further refinements to Envirox™ processing, and ongoing work on projects such as the development of advanced ceramics based on sintered zirconia nanopowders, and an industrial grade nano zinc oxide for stable, transparent UV protection in plastics for food packaging.

In October 2005, Advanced Nano was the recipient of the prestigious 2005 US-based Frost & Sullivan Excellence in Technology Award for Nanomaterials in recognition of the Company's "pioneering efforts in the development of the Mechanochemical Processing (MCP™) technology that has enabled production of true nano dispersed forms with superior product characteristics".

## Overheads and Expenses

Advanced Nano's 2006 expenses and overheads were \$4,118,824, up \$129,234 or 3% from 2005. Commentary on the following expenses is provided below:

	2006	2005	Change		
	\$	\$			
Total expenses and overheads per above table:					
Operating expenses and general overheads	1,599,875	2,043,349	(443,474)	Decreased	22%
R&D, product and business development	1,460,000	1,110,000	350,000	Increased	32%
Non-cash items	1,058,949	836,241	222,708	Increased	27%
	<u>4,118,824</u>	<u>3,989,590</u>	<u>129,234</u>	Increased	3%
Expenses and overheads as disclosed in income statement:					
Labour & personnel expenses	2,332,061	1,890,856	441,205	Increased	23%
Travel and related expenses	124,594	116,558	8,036	Increased	7%
Occupancy expenses	121,273	263,488	(142,215)	Decreased	54%
Other operating costs	60,248	328,273	(268,025)	Decreased	82%
Corporate overheads	454,547	471,685	(17,138)	Decreased	4%
Sales & marketing expenses	81,148	30,170	50,978	Increased	169%
Depreciation & amortisation	861,689	708,214	153,475	Increased	22%
Other expenses	57,245	35,978	21,267	Increased	59%
Finance costs	26,019	27,544	(1,525)	Decreased	6%
Share of loss of joint venture	-	116,824	(116,824)	Decreased	100%
	<u>4,118,824</u>	<u>3,989,590</u>	<u>129,234</u>	Increased	3%

- Labour and personnel expenses – 2006 expense includes expense associated with October 2005 employee share option issue (\$197,260). Other increases in labour are as a result of the March 2005 addition to Advanced Nano's executive team, along with additional sales and marketing support;
- Travel and related expenses – increased by 7% due to expansion of overseas sales and marketing efforts associated with the launch of new products;
- Occupancy expenses – in 2005, occupancy expenses included rent and outgoings associated with Company's additional facilities. As these facilities are now being used predominantly for production purposes, these costs are now included in cost of goods sold;
- Other operating costs – includes consumables, repairs and maintenance and energy costs which are consumed in research and development and other non production activities. These costs have reduced in 2006 as production levels rose due to the significant increase in sales to customers;
- Corporate overheads – reduced by 4% due to elimination of certain external accounting costs associated with the Company's transition to AIFRS and other one-off activities;
- Sales and marketing expenses – increase reflects additional investment in overseas marketing, including formulations for planned product launches, and additional brochures and marketing materials;
- Depreciation and amortisation expenses – the 2006 amortisation expense includes the full year amount of amortisation for Intellectual Property held by ANT. Prior to 25 January 2005, the date of ANT's share buy back, this amortisation charge was included in the share of joint venture loss; and
- Share of joint venture loss – on 25 January 2005, ANT underwent a share buy back, giving Advanced Nanotechnology Limited 100% control from this date. This amount therefore reflects the share of loss associated with ANT prior to the date of the buy back transaction.

---

## Outlook for financial year 2007

Advanced Nano's Directors believe that the revenue outlook for the 2007 financial year is encouraging. Demand for products is expected to continue to grow strongly, and the effect of new product launches and process refinements are expected to further increase operating margins over time.

In the Personal Care segment, Directors believe that the introduction of the Company's new ZinClear-IM™ range, together with its ZinClear®-Dry powders and new ZinClear®-S dispersions, will drive demand for this product family, particularly in the large U.S. market. Sales of the Alusion® product family are also expected continue to grow strongly.

In Industrial and Environmental, revenue will be driven to a substantial degree by sales to Oxonica. Early indications from European customers also suggest strong interest of the new NanoZ®-AQ dispersions, since these water-based dispersions can help customers meet the upcoming VOC (Volatile Organic Compounds) regulations that are limiting development of traditional solvent-based paints and coatings.

Processing margins should continue to improve as a result of the Company's ongoing investment in process refinements and ongoing management of overheads and operating expenses. The Company expects gross margins to increase in future financial years as sales commence from the planned 2007 launch of lower cost products.

ENDS

## APPENDIX 4E – PRELIMINARY FINAL REPORT - 30 JUNE 2006

Name of entity	Advanced Nanotechnology Limited (ASX: ANO)
ABN	54 079 845 855

Reporting period	1 July 2005 to 30 June 2006
Previous corresponding period	1 July 2004 to 30 June 2005

### RESULTS FOR ANNOUNCEMENT TO THE MARKET

Revenue from ordinary activities	Up	1,322,123	76%	To	3,072,446	From	1,750,343
Net profit/(loss) from ordinary activities after tax attributable to members	Down	418,019	12%	To	(3,155,859)	From	(3,573,878)
Net profit/(loss) for the period attributable to members	Down	418,019	12%	To	(3,155,859)	From	(3,573,878)

### DIVIDENDS

The Company does not propose to pay a dividend in respect of the 2006 financial year.
---

### NET TANGIBLE ASSETS PER SECURITY

Reporting period	4.40 cents per share
Previous corresponding period	5.94 cents per share

### LOSS PER SHARE

Reporting period	1.88 cents per share
Previous corresponding period	2.64 cents per share

### AUDIT/REVIEW OF ACCOUNTS TO WHICH THIS REPORT IS BASED

This preliminary final report is based upon accounts which have been audited (refer Independent Audit Report, page 72 of Annual Report).
--

### COMMENTARY ON RESULTS AND OTHER FINANCIAL INFORMATION

Please refer to the attached narrative and 2006 Annual Report for further information regarding the Company's operations, results and financial position.
---