
ASX ANNOUNCEMENT
(ASX: ANO)

7 SEPTEMBER 2005

ADVANCED NANO REPORTS STRONG REVENUE GROWTH

Appendix 4E – Preliminary Final Report for the year ended 30 June 2005

Advanced Nanotechnology Limited (Advanced Nano or the Company) today announced its preliminary final report for the year ended 30 June 2005.

Sales to customers for the 2005 financial year totalled \$1.503 million, an increase of approximately 74% over the 2004 financial year sales of \$0.863 million. Revenue growth was achieved over all Advanced Nano product lines.

Revenues for the Company's personal care products increased by 80% in comparison to the 2004 financial year (from \$0.400 million to \$0.719 million) due to increasing overseas sales. Advanced Nano's CEO Paul McCormick stated that the establishment of a strong network of overseas distributors had been critical in achieving and sustaining growth of the Company's personal care revenues.

Sales of the Company's industrial and environmental products over the full year increased by 69% from \$0.463 million to \$0.783 million, due primarily to increased sales of Cercat™ cerium oxide dispersion to Oxonica plc, which is used as the active catalyst material in their Envirox™ fuel catalyst.

Dr. McCormick stated that the full year's result reflected an increase in revenues progressively during the year. Sales to customers in the second half of the 2005 financial year were \$0.966 million or 80% higher, as compared to the \$0.537 million sales for the first half. Advanced Nano's loss for the year ended 30 June 2005 was \$3.516 million.

Dr. McCormick emphasised that the 2005 financial year had been a pivotal period as the Company focussed on increasing sales and, at the same time, putting the necessary organisational and capital infrastructure in place (as reflected in increased costs) in order to position Advanced Nano for continued growth through development and commercialisation of its nanomaterial products.

Other highlights for the year included:

- August 2004 – Advanced Nano raised approximately \$2 million as part of a private placement;
- September 2004 – first commercial sales of Zinclear®-S, silicone coated zinc oxide dispersions for personal care applications;
- December 2004 – recommencement of production and sales of Cercat™ cerium oxide dispersion to Oxonica;
- January 2005 – Advanced Nano Technologies Pty Ltd (ANT) became a wholly owned subsidiary of Advanced Nano via a selective buy back of Samsung Corning Co. Ltd's 50% interest in ANT. As part of the buy back, ANT and Samsung Corning now co-own certain intellectual property rights relating to the MCP™ nanopowder manufacturing process; and
- February 2005 – Advanced Nano raised a total of \$9.5 million pursuant to its initial public offering. The Company was admitted to the official list of the Australian Stock Exchange with trading in its shares commencing 24 February 2005.

FINANCIAL SUMMARY

2005 REVENUE

Total revenue from operating activities for 2005 was \$1.850 million, an increase of 84% over the 2004 total. Sales to customers for the 2005 financial year totalled \$1.503 million, an increase of approximately 74% over the previous year's sales of \$0.863 million.

	2005	2004	Increase	% Change	
	\$	\$			
Sales to customers					
Personal Care	719,309	399,549	319,760	Up	80%
Industrial & Environmental	<u>783,203</u>	<u>463,316</u>	<u>319,887</u>	Up	69%
	1,502,512	862,865	639,647	Up	74%
Bank interest and other revenue	<u>347,350</u>	<u>142,366</u>	<u>204,984</u>	Up	144%
Total revenue from operating activities	<u>1,849,862</u>	<u>1,005,231</u>	<u>844,631</u>	Up	84%

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

Revenue associated with Advanced Nano's industrial and environmental products also increased significantly in 2005 (up 69%) as Oxonica's customers adopt Envirox[™]. Advanced Nano manufactures and supplies its Cercat[™] cerium oxide dispersion to Oxonica, which is used as the active catalyst material in their Envirox[™] fuel catalyst.

Advanced Nano and Oxonica are negotiating a supply agreement under which it is envisaged that the manufacturing steps currently being carried out at Oxonica's UK facility will be transferred to Advanced Nano, enabling the Company to carry out the full manufacture of Envirox[™]. Oxonica listed on the Alternative Investment Market of the London Stock Exchange in July 2005, raising £7.1 million.

2005 RESULT

Advanced Nano's loss for the year ended 30 June 2005 of \$3.516 million was in line with the Directors' expectations and is consistent with the Company's ongoing investment in its research and product development activities and the increasing uptake of its nanotechnology products.

Due to the change in ownership structure of ANT during the year, the 2005 loss is not directly comparable to the 2004 loss of \$2.285 million. The 2005 loss is a combination of (i) the Company's result; (ii) ANT's equity accounted losses for the period to 24 January 2005 (50%); and (iii) ANT's consolidated losses for the period from 25 January to 30 June 2005 (100%). The 2004 loss represents the Company's loss plus ANT's equity accounted loss (50%) for the entire 2004 financial year.

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

- Labour – following the conclusion of ANT's Start grant project, key staff were transferred to Advanced Nano to enhance new product development activities. Advanced Nano's headcount increased to 26 permanent employees during 2005, following the above staff transfers, the strengthening of its executive team and the hiring of additional production support staff. Contract labour also increased along with production growth, and consultant expenditure increased in support of our overseas sales & marketing efforts.

FINANCIAL SUMMARY continued

- Operating costs – have increased in line with the rise in production. Repairs and maintenance costs also increased in light of higher production levels and to implement improvements in the reliability of Advanced Nano's plant and equipment.
- Occupancy – in December 2004, the Company entered into a three-year lease for additional premises in Welshpool WA to provide additional space for the expansion of its manufacturing facilities. Advanced Nano's corporate office is also located at this facility.
- Corporate overheads - the Company's finance and administration overheads have increased due to the Company's change in status to a publicly listed company and to enable its initial public offering. This included one-off items and increases in ongoing compliance costs. Advanced Nano does not expect to see significant increases in these mainly fixed expenses in the future.
- Amortisation expenses – the Company has a significant annual expense associated with the amortisation of its patents, licenses and technologies. This expense includes the amortisation of both Advanced Nano and ANT intangible assets and will increase further in 2006 as the full year effect is seen upon the consolidated results (ANT's 2005 expense was consolidated from 25 January 2005 only).

OPERATIONS

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

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

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

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

PRODUCT DEVELOPMENT

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

PRODUCT DEVELOPMENT continued

Key product development highlights during the year included:

ZinClear®-S

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

NanoZ®-AQ

The Company sees industrial transparent functional coatings based on its MCP™ nanoparticles as an important market for future growth. Advanced Nano's first product in this sector NanoZ®, a transparent solvent based UV blocking zinc oxide dispersion for the protection of timber, is being extended to NanoZ®-AQ, a water based zinc oxide nano dispersion for the new generation of transparent long-life, solvent-free, low-VOC (Volatile Organic Compounds) coatings. Concept samples of NanoZ®-AQ are being provided to selected Australian and overseas coatings manufacturers for testing and evaluation.

Platyl™ ceramic coatings

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

Patent Applications

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

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

OUTLOOK

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

CONTACT: Paul McCormick, Chief Executive Officer
Tel: +61 (8) 9458 0800

APPENDIX 4E – PRELIMINARY FINAL REPORT 30 JUNE 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 2004 to 30 June 2005. The previous corresponding period is 1 July 2003 to June 2004.

2. RESULTS FOR ANNOUNCEMENT TO THE MARKET.

2.1	Revenue from ordinary activities	Up	844,631	84%	To	1,849,862	From	1,005,231
2.2	Net profit/(loss) from ordinary activities after tax attributable to members	Up	(1,230,697)	54%	To	(3,515,663)	From	(2,284,966)
2.3	Net profit/(loss) for the period attributable to members	Up	(1,230,697)	54%	To	(3,515,663)	From	(2,284,966)
2.4	The Company does not propose to pay a dividend in respect of the 2005 financial year.							
2.5	Not applicable.							
2.6	Refer pages 1 to 4.							

3. STATEMENT OF FINANCIAL PERFORMANCE TOGETHER WITH NOTES TO THE STATEMENT.

Refer page 8 following.

4. STATEMENT OF FINANCIAL POSITION TOGETHER WITH NOTES TO THE STATEMENT.

Refer page 9 following.

5. STATEMENT OF CASH FLOWS TOGETHER WITH NOTES TO THE STATEMENT.

Refer page 10 following.

6. DETAILS OF INDIVIDUAL AND TOTAL DIVIDENDS OR DISTRIBUTIONS AND DIVIDEND OR DISTRIBUTION PAYMENTS.

Not applicable.

7. DETAILS OF ANY DIVIDEND OR DISTRIBUTION REINVESTMENT PLANS IN OPERATION.

Not applicable.

8. STATEMENT OF RETAINED EARNINGS SHOWING MOVEMENTS.

Refer Note 20 (page 17) following.

9. NET TANGIBLE ASSETS PER SECURITY.

Current period - 5.82 cents per share.
Previous corresponding period – equivalent of 4.29 cents per share.

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

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

10.2 Date control gained – 24 January 2005.

10.3 Subsidiary result from date control gained – loss of \$30,756.

As at 30 June 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.

11. DETAILS OF ASSOCIATES AND JOINT VENTURE ENTITIES INCLUDING THE FOLLOWING.

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 - \$83,875 (2004: \$801,668).

12. ANY OTHER SIGNIFICANT INFORMATION NEEDED BY AN INVESTOR TO MAKE AN INFORMED ASSESSMENT OF THE ENTITY'S FINANCIAL PERFORMANCE AND FINANCIAL POSITION.

Refer pages 1 to 4.

13. FOR FOREIGN ENTITIES, WHICH SET OF ACCOUNTING STANDARDS IS USED IN COMPILING THE REPORT (E.G. INTERNATIONAL ACCOUNTING STANDARDS).

Not applicable.

14. COMMENTARY ON THE RESULTS FOR THE PERIOD.

14.1 Loss Per Share:

Current period – loss of 2.60 cents per share.

Previous corresponding period – equivalent of a loss of 2.65 cents per share.

14.2 Returns to shareholders including distributions and buy backs:

The Company does not propose to pay a dividend in respect of the 2005 financial year.

14.3 Significant features of operating performance:

Refer pages 1 to 4.

14.4 Segment results:

Refer Note 22 (page 19) following.

14.5 Trends in performance:

Refer pages 1 to 4.

14.5 Other factors affecting the results:

Refer pages 1 to 4.

15. AUDIT/REVIEW OF ACCOUNTS TO WHICH THIS REPORT IS BASED.

This preliminary final report is based upon the 2005 annual report of Advanced Nanotechnology Limited, which is in the process of being audited.

The Directors expect an unqualified audit report.

16. ACCOUNTS HAVE NOT YET BEEN AUDITED OR SUBJECT TO REVIEW AND ARE LIKELY TO BE SUBJECT TO DISPUTE OR QUALIFICATION.

Not applicable.

17. ACCOUNTS HAVE BEEN AUDITED OR SUBJECT TO REVIEW AND ARE SUBJECT TO DISPUTE OR QUALIFICATION.

Not applicable.

STATEMENT OF FINANCIAL PERFORMANCE

Year ended 30 June	Notes	2005 \$	2004 \$
Revenue from ordinary activities	1	1,849,862	1,005,231
Salaries and oncosts		(1,761,331)	(487,248)
Depreciation and amortisation expenses	2	(735,892)	(548,621)
Repairs and maintenance		(345,113)	(65,944)
Consultancy expense		(322,871)	(357,872)
Changes in inventories of finished goods and work in progress		(206,994)	(115,264)
Rent and outgoings		(173,305)	(9,222)
Insurance expense		(165,832)	(96,925)
Directors' fees		(147,510)	-
Equipment rental expense	2	(146,657)	(173,587)
Employee benefits expense	2	(126,264)	(46,472)
Travel and accommodation expenses		(119,920)	(72,541)
Gas and electricity costs		(113,289)	(45,739)
Accounting and auditing expenses		(106,232)	(16,227)
Production consumables		(105,408)	(14,544)
Freight and courier costs		(96,861)	(83,972)
Legal fees		(93,111)	(69,349)
Share of joint venture loss accounted for using the equity method		(83,875)	(801,668)
Waste and water disposal		(80,397)	(30,512)
Borrowing costs expenses	2	(34,287)	(223,476)
Decommissioning expense		(32,000)	-
Provision for doubtful debts	2	(9,626)	56,973
Other expenses from ordinary activities		(358,750)	(87,987)
(Loss) from ordinary activities before related income tax expense		(3,515,663)	(2,284,966)
Income tax expense	3	-	-
(Loss) from ordinary activities after related income tax expense		(3,515,663)	(2,284,966)
Share issue costs	19	(1,049,260)	(106,492)
Total expenses attributable to members of Advanced Nanotechnology Limited and recognisable directly in equity		(1,049,260)	(106,492)
Total changes in equity attributable to members of Advanced Nanotechnology Limited other than those resulting from transactions with owners as owners		(4,564,923)	(2,391,458)
Basic (loss) per share (cents per share)	4	(2.60)	N/a
Diluted (loss) per share (cents per share)	4	(2.60)	N/a

The above Statement of Financial Performance should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

Year ended 30 June	Notes	2005 \$	2004 \$
Current Assets			
Cash assets	5	8,405,549	2,435,518
Receivables	6	448,861	141,179
Inventories	7	360,297	160,262
Other	8	47,943	7,769
Total Current Assets		9,262,650	2,744,728
Non-Current Assets			
Cash assets	9	261,585	166,585
Investments accounted for using the equity method	10	-	2,370,466
Property, plant and equipment	11	1,248,559	603,258
Intangible assets	12	6,912,501	4,899,709
Total Non-Current Assets		8,422,645	8,040,018
Total Assets		17,685,295	10,784,746
Current Liabilities			
Payables	13	170,859	362,766
Interest bearing liabilities	14	33,317	33,317
Provisions	15	135,944	55,659
Other	16	345,987	421,107
Total Current Liabilities		686,107	872,849
Non-Current Liabilities			
Interest bearing liabilities	17	245,190	278,507
Provisions	18	79,722	-
Total Non-Current Liabilities		324,912	278,507
Total Liabilities		1,011,019	1,151,356
Net Assets		16,674,276	9,633,390
Equity			
Contributed equity	19	28,024,049	17,572,588
Option premium reserve	19	128,790	23,702
Accumulated (losses)	20	(11,478,563)	(7,962,900)
Total Equity		16,674,276	9,633,390

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

STATEMENT OF CASH FLOWS

Year ended 30 June	Notes	2005 \$	2004 \$
Cash flows from operating activities			
Receipts from customers		1,347,654	959,738
Payments to suppliers and employees		(5,016,586)	(1,779,333)
		(3,668,932)	(819,595)
Grants received		37,492	35,968
Interest received		239,445	39,885
Borrowing costs		(28,104)	-
Net cash (outflow) from operating activities	21	(3,420,099)	(743,742)
Cash flows from investing activities			
Payments for property, plant and equipment	11	(838,610)	(325,793)
Payments for patents and trademarks	12	(50,784)	(29,103)
Payment for licenses		-	(749,840)
Investment in joint venture	21	(33,370)	-
Cash acquired on acquisition of subsidiary	21	10,177	-
Loans to related parties	21	(120,000)	250,000
Proceeds from sale of property, plant and equipment	1	18,183	-
Net cash (outflow) from investing activities		(1,014,404)	(854,736)
Cash flows from financing activities			
Payment for security deposit	9	(95,000)	(166,585)
Proceeds from issues of shares and other equity securities	19	11,500,721	2,700,360
Share issue costs		(944,172)	(106,492)
Chattel mortgage finance		(57,015)	243,489
Net cash inflow from financing activities		10,404,534	2,670,772
Net increase in cash held		5,970,031	1,072,294
Cash at the beginning of the financial year		2,435,518	1,363,224
Cash at the end of the financial year	5	8,405,549	2,435,518

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

NOTES TO THE PRELIMINARY FINAL REPORT**Year ended 30 June****2005**
\$**2004**
\$**1. Revenue****Revenue from operating activities**

Sale of goods	1,502,512	862,865
---------------	------------------	---------

Revenue from outside operating activities

Bank interest	247,831	39,885
Foreign currency gains	-	43,076
Subsidies and grants	57,492	35,968
Proceeds from sale of assets	18,183	-
Other revenue	23,844	23,437
	347,350	142,366

Revenue from ordinary activities

	1,849,862	1,005,231
--	------------------	-----------

2. Expenses and Losses**(a) Expenses**

Cost of goods sold	1,338,445	717,297
Research and development	512,594	121,664
Amortisation Intangibles	497,060	405,837
Depreciation Plant and equipment	238,832	142,784
Operating lease rental Minimum lease payments	146,657	173,587
Other provisions Employee benefits	126,264	46,472
Borrowing costs Interest and finance charges paid/payable	34,287	223,476
Written down value of plant and equipment sold	21,767	-
Bad and doubtful debts - trade debtors	9,626	(56,973)

NOTES TO THE PRELIMINARY FINAL REPORT continued

Year ended 30 June	2005 \$	2004 \$
2. Expenses and Losses continued		
(b) Losses		
Net foreign currency losses	32,112	-
3. Income Tax		
Profit from ordinary activities before income tax expense	(3,515,663)	(2,284,966)
Income tax calculated @ 30% [2004~30%]	(1,054,699)	(685,490)
Tax effect of permanent differences		
Research and development expenditure	(38,445)	(9,125)
Share of joint venture net losses	25,163	240,500
Share issue costs	(75,735)	-
Sundry items	3,372	4,368
Income tax adjusted for permanent differences	(1,140,344)	(449,747)
Tax losses not brought to account	1,140,344	449,747
Aggregate income tax expense	-	-
The directors estimate that the potential value of the future income tax benefit at 30 June is	3,240,411	1,238,280

At 30 June 2005, Advanced Nano and its subsidiary, ANT, had not formed a tax consolidated group and as such the tax losses will be recouped at an individual entity level. The estimated potential amount of tax losses available to Advanced Nano at 30 June 2005 totalled \$6,211,569, and the estimated potential amount of tax losses available to ANT at 30 June 2005 was \$4,589,802.

These benefits for tax losses will only be obtained if:

- (i) the entities derive future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised; or
- (ii) the entities continue to comply with the conditions for deductibility imposed by tax legislation; and
- (iii) no changes in tax legislation adversely affect the entities in realising the benefit from the deductions for the losses.

4. Loss per share

The following reflects the income and share data used in the calculating basic and diluted (loss) per share:

Net (loss)	(3,515,663)	N/a
Earnings used in calculating basic and diluted (loss) per share	(3,515,663)	N/a
	Number of shares	Number of shares
Weighted average number of ordinary shares used in calculating basic and diluted (loss) per share	135,161,046	N/a

Disclosure of comparative information is not required in the first financial report an entity changes from a private company to a listed company.

NOTES TO THE PRELIMINARY FINAL REPORT continued

Year ended 30 June	2005 \$	2004 \$
--------------------	------------	------------

4. Loss per share continued**Potential ordinary shares not considered dilutive**

As at 30 June 2005 the Company had on issue 14,133,581 unissued ordinary shares under options. As the notional exercise of these options would decrease basic loss per share and as their exercise price is great than the average market price for the year, they have not been considered dilutive.

Conversions, calls, subscriptions or issues after 30 June 2005

On 16 August 2005, the Company offered 6,313,590 options to certain employees for nil consideration. These options will vest 2 years from the date of the Company's listing (vesting 24 February 2007). The expiry date for the options is 24 February 2010 and they may be exercised at an exercise price of 30.8 cents per option. As at the date of this report, these options have not been issued.

5. Current assets – Cash assets

Cheque account	(17,380)	2,086,140
USD account	142,722	349,378
Cash on deposit	8,280,207	-
	<u>8,405,549</u>	<u>2,435,518</u>

6. Current assets – Receivables

Trade debtors	466,406	177,600
Less: Provision for doubtful debts	(56,000)	(49,117)
	<u>410,406</u>	<u>128,483</u>
Goods and services tax (GST) receivable	38,455	12,696
	<u>448,861</u>	<u>141,179</u>

7. Current assets – Inventories

Raw materials	121,037	38,088
Work in progress	77,364	28,504
Finished goods	161,896	93,670
	<u>360,297</u>	<u>160,262</u>

8. Current assets – Other

Prepayments	25,671	-
Accrued income	22,272	7,769
	<u>47,943</u>	<u>7,769</u>

9. Non-current assets – Cash assets

Cash on deposit	261,585	166,585
-----------------	---------	---------

10. Non-current assets – Investments

Interest in joint venture entity accounted for using the equity method	-	2,370,466
--	---	-----------

NOTES TO THE PRELIMINARY FINAL REPORT continued

Year ended 30 June	Notes	2005 \$	2004 \$
11. Non-current assets – Property, plant and equipment			
Plant and equipment			
At cost		1,814,835	805,904
Less: accumulated depreciation		566,276	202,646
Total plant and equipment		<u>1,248,559</u>	<u>603,258</u>
Carrying amount at beginning of financial year		603,258	420,249
Additions		838,610	325,793
Acquisition of subsidiary		67,187	-
Disposals/adjustments		(21,664)	-
Depreciation expense	2	(238,832)	(142,784)
Carrying amount at end of financial year		<u>1,248,559</u>	<u>603,258</u>
12. Non-current assets – Intangible assets			
Patents, trademarks & licences at cost		1,053,842	879,403
Less: accumulated amortisation		183,178	82,250
		<u>870,664</u>	<u>797,153</u>
Intellectual property rights		8,696,285	5,475,000
Less: accumulated amortisation		2,654,448	1,372,444
		<u>6,041,837</u>	<u>4,102,556</u>
Total intangible assets		<u>6,912,501</u>	<u>4,899,709</u>
Carrying amount at beginning of financial year		4,899,709	5,276,443
Additions		50,784	29,103
Acquisition of subsidiary		2,459,068	-
Disposals/adjustments		-	-
Amortisation expense	2	(497,060)	(405,837)
Carrying amount at end of financial year		<u>6,912,501</u>	<u>4,899,709</u>
13. Current liabilities – Payables			
Trade creditors		113,931	332,063
Other payables		50,260	30,703
Goods and services tax (GST) payable		6,668	-
		<u>170,859</u>	<u>362,766</u>

NOTES TO THE PRELIMINARY FINAL REPORT continued

Year ended 30 June	2005 \$	2004 \$
--------------------	------------	------------

14. Current liabilities – Interest bearing liabilities**Secured**

Chattel mortgage - face value of payments	57,015	57,015
Chattel mortgage - unexpired interest on mortgage	(23,698)	(23,698)
	<u>33,317</u>	<u>33,317</u>

Chattel Mortgage

At 30 June 2005, the Company has two chattel mortgages totalling \$278,507 (\$51,682 and \$226,825). These mortgages are repayable in monthly instalments and bear interest at 8.762% and 9.526% respectively per annum. Security for the loans is as follows:

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

15. Current liabilities – Provisions

Employee benefits	135,944	55,659
Carrying amount at beginning of financial year	55,659	29,972
Employee benefits transferred in	78,423	-
Increase in provision recognised	78,542	46,472
Amounts utilised during the year	(76,680)	(20,785)
Carrying amount at end of financial year	<u>135,944</u>	<u>55,659</u>

16. Current liabilities – Other**Unsecured**

Accrued expenses	255,927	144,026
Unearned income	90,060	-
Accrued interest on convertible notes	-	277,081
	<u>345,987</u>	<u>421,107</u>

17. Non-current liabilities – Interest bearing liabilities**Secured**

Chattel mortgage - face value of payments	301,450	358,465
Chattel mortgage - unexpired interest on mortgage	(56,260)	(79,958)
	<u>245,190</u>	<u>278,507</u>

Chattel Mortgage

At 30 June 2005 the Company has two chattel mortgages totalling \$278,507 (\$51,682 and \$226,825). These mortgages are repayable in monthly instalments and bear interest at 8.762% and 9.526% respectively per annum. Security for the loans is as follows:

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

NOTES TO THE PRELIMINARY FINAL REPORT continued**Year ended 30 June**

	2005	2004
	\$	\$

18. Non-current liabilities – Provisions

Employee benefits	47,722	-
Restoration/decommissioning costs	32,000	-
	79,722	-
Carrying amount at beginning of financial year	-	-
Increase in provision recognised - Employee benefits	47,722	-
Increase in provision recognised - Restoration/decommissioning costs	32,000	-
Amounts utilised during the year	-	-
Carrying amount at end of financial year	79,722	-

19. Contributed equity**(a) Issued and paid up capital**

Ordinary shares fully paid	28,024,049	17,572,588
----------------------------	------------	------------

(b) Movements in share capital**Ordinary Shares Fully Paid**

Year ended 30 June		2005		2004	
	Issue Date	Number	\$	Number	\$
Opening balance		31,227	17,572,588	22,963	12,978,720
Share issue (conversion of convertible notes)	31-Mar-04	-	-	648	320,000
Share issue (conversion of convertible notes)	31-Mar-04	-	-	664	328,085
Share issue (conversion of convertible notes)	16-Apr-04	-	-	4,046	2,000,000
Share issue (private placement)	5-May-04	-	-	2,906	2,052,275
Share issue (private placement)	25-Aug-04	2,833	2,000,721	-	-
		34,060			
Capital reconstruction (3,531.157 to 1)	4-Nov-04	120,271,202			
Share issue (pursuant to prospectus dated 10 January 2005)	17-Feb-05	45,000,000	9,000,000	-	-
Share issue (pursuant to prospectus dated 1 March 2005)	23-Feb-05	2,500,000	500,000	-	-
		167,771,202	29,073,309	31,227	17,679,080
Less transaction costs arising on share issues		-	(1,049,260)	-	(106,492)
Closing balance		167,771,202	28,024,049	31,227	17,572,588

Options

Year ended 30 June		2005		2004		
	Expiry Date	Exercise Price	Number	\$	Number	\$
Opening balance			3,251	23,702	3,583	-
Options issued to convertible noteholders	31-Dec-07	\$0.400	-	-	182	23,702
			3,251			
Capital reconstruction (3,531.157 to 1)	4-Nov-04		11,479,792			
Options issued to KTM Capital	31-Dec-07	\$0.400	3,903,692	105,088	-	-
Options issued to non executive directors	24-Feb-10	\$0.308	750,000	-	-	-
Options lapsed during the year			(1,999,903)	-	(514)	-
Closing balance			14,133,581	128,790	3,251	23,702

NOTES TO THE PRELIMINARY FINAL REPORT continued

Year ended 30 June	2005	2004
	\$	\$

19. Contributed equity continued**(c) Ordinary Shares**

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each shares is entitled to one vote.

During the financial year, the Company issued the following ordinary shares:

- (i) On 25 August 2004, the Company raised additional capital of \$2,000,721 through the issue of new ordinary shares as part of a private placement. Share placement costs of \$100,611 were incurred in relation to this issue.
- (ii) Pursuant to a resolution of shareholders, on 4 November 2004, the Company underwent a capital reconstruction such that each ordinary share on issue was converted into 3,531.157 ordinary shares and options.
- (iii) On 17 February 2005, the Company issued 45,000,000 ordinary shares to the public on the Australian Stock Exchange at 20 cents per share, totalling \$9,000,000. Share placement costs of \$912,074 were incurred in relation to this issue.
- (iv) On 23 February 2005, the Company issued a further 2,500,000 ordinary shares to the public on the Australian Stock Exchange at 20 cents per share, totalling \$500,000. Share placement costs of \$36,575 were incurred in relation to this issue.

(d) Options

During the financial year, the Company issued the following options over ordinary shares:

- (i) On 17 February 2005, the Company issued 3,903,692 options to KTM Capital Pty Ltd and their assigns as part of the underwriting agreement. These options will have an exercise price of 40 cents per option and are exercisable at any time prior to 31 December 2007; and
- (ii) On 22 February 2005, the Company issued 250,000 options to each of the Company's three non-executive Directors (750,000 options in total). These options will be subject to a two year escrow restriction and issued upon the official quotation of the Shares on the ASX. Each option will have an exercise price of 30.8 cents and a term of five years, expiring on 21 February 2010.

On 16 August 2005, the Company offered 6,313,590 Options to acquire Ordinary shares under its employee share option plan. These options will vest 2 years from the date of the Company's listing (vesting 24 February 2007). The expiry date for the Options is 24 February 2010 and they may be exercised at an exercise price of 30.8 cents per option. As at the date of this report, these options have not been issued.

20. Accumulated losses

Accumulated (losses) at the beginning of the financial year	(7,962,900)	(5,677,934)
Net (loss)	(3,515,663)	(2,284,966)
Accumulated (losses) at the end of the financial year	(11,478,563)	(7,962,900)

NOTES TO THE PRELIMINARY FINAL REPORT continued

Year ended 30 June	2005	2004
	\$	\$

21. Statement of cash flows**(a) Reconciliation of loss from ordinary activities after income tax to net cash inflow from operating activities**

(Loss) from ordinary activities after income tax	(3,515,663)	(2,284,966)
Depreciation and amortisation	735,892	548,621
Loss on disposal of property, plant & equip	3,584	-
Share of losses of the joint venture partnership (not received as dividends or distributions)	83,875	801,668
Accrued interest on convertible note rights	(277,081)	171,876
Interest on convertible notes taken as capital	-	23,702
Change in operating assets and liabilities		
Decrease/(increase) in receivables	(288,714)	51,042
Decrease/(increase) in other assets	(65,190)	8,036
Decrease/(increase) in inventories	(200,034)	(115,263)
Increase/(decrease) in accruals	168,883	12,382
Increase/(decrease) in payables	(232,449)	13,473
Increase/(decrease) in provisions	166,798	25,687
Net cash (outflow) from operating activities	<u>(3,420,099)</u>	<u>(743,742)</u>

(b) Acquisition of subsidiary

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

Net assets of Advanced Nano Technologies Pty Ltd as at 24 January 2005

Cash	10,177
Trade debtors	-
Other assets	52,439
Property, plant and equipment	67,187
Intangible assets	2,459,068
	<u>2,588,871</u>
Trade creditors	(11,927)
Employee provision	(78,423)
Accruals and other payables	(180,560)
Fair value of net assets	<u>2,317,961</u>

The cash impact of the ANT buy back on the consolidated group (as disclosed in the Statement of cash flows) is as follows:

- (i) An outflow of \$33,370 in relation to the payment of professional fees associated with the buy back, these are shown as a payment for the investment in joint venture on the face of the cash flow statement;
- (ii) An outflow of \$120,000 in the form of a loan to ANT to ensure that ANT had sufficient funds to undergo the buy back shown as a related party loan on the face of the cashflow statement; and
- (iii) An inflow of \$10,177 being ANT's cash at bank following the conclusion of the buy back.

NOTES TO THE PRELIMINARY FINAL REPORT continued

Year ended 30 June

2005

2004

\$

\$

22. Segment information**Segment products and locations**

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

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

	Personal Care		Industrial & Environmental		Consolidated	
	2005	2004	2005	2004	2005	2004
Revenue	\$	\$	\$	\$	\$	\$
Sales to customers	719,309	399,549	783,203	463,316	1,502,512	862,865
Total segment revenue	719,309	399,549	783,203	463,316	1,502,512	862,865
Non-segment revenues						
Bank interest					247,831	39,885
Foreign currency gains					-	43,076
Subsidies and grants					57,492	35,968
Proceeds from sale of assets					18,183	-
Other revenue					23,844	23,437
					347,350	142,366
Total revenue from ordinary activities					1,849,862	1,005,231
Results						
Share of JV Loss					(83,875)	(801,668)
Unallocated expenses					(5,281,650)	(1,625,664)
Profit from ordinary activities before income tax expense					(3,515,663)	(1,422,101)
Income tax expense					-	-
Profit from ordinary activities after income tax expense					(3,515,663)	(1,422,101)
Assets						
Unallocated assets	-	-	-	-	17,685,295	10,784,746
Total assets	-	-	-	-	17,685,295	10,784,746

Segment products and locations

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

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

NOTES TO THE PRELIMINARY FINAL REPORT continued**23. Impact of adopting Australian equivalents to International Financial Reporting Standards (IFRS)**

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

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

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

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

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

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

(a) AASB 120 Government Grants

Under AASB 120 Government Grant, 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 assets life. Previously, the Group did not capitalise assets acquired through government grant funding, instead they were expensed in the year they were incurred and the government grant revenue relating to those assets was recognised in the same period.

The application of this standard is expected to result in the capitalisation by ANT of assets with a total written down value (including attributable grant income) of approximately \$450,000 as at 1 July 2004. Depreciation expenses for these assets for the period from 1 July 2004 to 24 January 2005, less the grant income attributable to that depreciation is expected to be approximately \$53,000. 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.

Depreciation expenses for these assets the period from 25 January to 30 June 2005, less the grant income attributable to that depreciation, will be reflected in the Group's AIFRS 2005 consolidated result. The net expense for these items is expected to be approximately \$70,000.

(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; and
- The availability of adequate technical, financial and other resources to complete the development and use or sell the intangible asset.

NOTES TO THE PRELIMINARY FINAL REPORT continued**23. Impact of adopting Australian equivalents to IFRS continued****(b) AASB 138 Intangible Assets continued**

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

- (i) Capitalisation of development costs in the books of Advanced Nano of approximately \$160,000 as at 1 July 2004 and approximately \$80,000 for the year ended 30 June 2005;
- (ii) Accumulated amortisation of capitalised development costs of Advanced Nano as at 1 July 2004 of approximately \$50,000, and amortisation expenses for the year ended 30 June 2005 of approximately \$30,000;
- (iii) Capitalisation of development costs in the books of ANT of approximately \$320,000. This adjustment will be reflected in Advanced Nano's investment in joint venture entity;
- (iv) Accumulated amortisation of capitalised development costs of ANT as at 1 July 2004 of approximately \$60,000, and amortisation expenses for the period from 1 July 2004 to 24 January 2005 of approximately \$10,000. These adjustments will be reflected in Advanced Nano's investment in joint venture entity;
- (v) Unearned income in the books of ANT of approximately \$130,000 as at 1 July 2004 and approximately \$5,000 as at 24 January 2005. These adjustments will be reflected in Advanced Nano's investment in joint venture entity; and
- (vi) Amortisation of ANT's capitalised development costs for the period from 24 January 2005 to 30 June 2005 less grant income attributable to that amortisation of approximately \$5,000. This adjustment will be 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 the year. The Company has not changed its method of accounting for its interest in ANT; however the value of this investment has been adjusted to take up differences in the equity accounted value due to implementation of AIFRS standards. These standards include:

- (i) 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.
- (ii) AASB 138 Intangible Assets, costs incurred in the development phase of the development of an internally generated intangible asset would be capitalised. Previously, the Group did not capitalise development costs.

(d) AASB 2 Share Based Payments

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

The total value of the 750,000 options granted to Directors in February 2005 (250,000 options for each of three non-executive Directors) was approximately \$48,000 in total, of which approximately \$8,000 in total relates to the portion of the vesting period expired between grant date (22 February 2005) and year end (30 June 2005).

On 16 August 2005, the Company also offered 6,313,590 options to certain employees for nil consideration. These options will vest 2 years from the date of the Company's listing (vesting 24 February 2007). The expiry date for the options is 24 February 2010 and they may be exercised at an exercise price of 30.8 cents per option. The fair value of these options will be calculated at the grant date. As at the date of this report, these options have not been granted.

NOTES TO THE PRELIMINARY FINAL REPORT continued**24. Impact of adopting Australian equivalents to IFRS continued****(e) AASB 112 Income Taxes**

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

(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. Currently, AGAAP does not require the use of discounted cash flows in the determination of recoverable amount.

To the extent that assets (tangible and intangible) are carried at amounts in excess of their recoverable amounts, as defined under AASB 136, and this impairment is not currently required to be recognised under AGAAP, an impairment charge will be required upon transition to AIFRS. As at the date of this report, the Company does not believe there is any indication of impairment.

(g) AASB 132 Financial Instruments

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