

ASX ANNOUNCEMENT  
(ASX: ANO)

MONDAY, 28 FEBRUARY 2005

## HALF YEAR REPORT

Advanced Nanotechnology Limited (Advanced Nano) today announced its results for the six months ended 31 December 2004. Advanced Nano CEO Paul McCormick stated that the December 2004 half year has been a pivotal period for the Company culminating in the listing of its shares on the Australian Stock Exchange on 24 February 2005. The Board of Directors of Advanced Nano continue to be encouraged by increasing market demand for its lead nanomaterials products, and with the capital raised via its initial public offering, believe the Company is well positioned for the future.

### HIGHLIGHTS

Highlights of the half year include:

- July 2004 – Advanced Nano’s joint venture entity Advanced Nano Technologies Pty Limited (ANT) successfully completed its mission of scaling the patented MCP™ process to production scale and completed its \$2.8 million AusIndustry Start Grant;
- August 2004 – Advanced Nano raised approximately \$2 million as part of a private placement;
- December 2004 – the Company entered into a three-year lease for additional premises in Welshpool, WA to provide much needed space for the expansion of its manufacturing plant;
- December 2004 – Cerulean Limited confirmed that the Stagecoach Group plans to introduce Envirox™ over the next six months across their 7,000 strong bus fleet in the UK after the success of a 12 month commercial evaluation. Advanced Nano manufactures a cerium oxide nanoparticle dispersion, a key component in Envirox™.
- December 2004 – Advanced Nano, ANT and Samsung Corning Co. Ltd. of Korea entered into agreements with respect to the buy back of Samsung Corning’s 50% shareholding in ANT and to establish co-ownership of ANT’s IP relating to the MCP™ nanopowder manufacturing process. The buy back was completed in January 2005 and at that time ANT became a wholly owned subsidiary of Advanced Nano.

### FINANCIAL SUMMARY

Advanced Nano’s loss for the six month ended 31 December 2004 was in line with the Directors expectations and is consistent with the Company’s move from research and development to commercialisation of its nanotechnology products.

	<u>2004</u>	<u>2003</u>	Increase / <u>(Decrease)</u>	<u>% Change</u>
	\$	\$		
Sales to customers				
Personal care	400,403	304,961	95,442	Up 31%
Industrial and environmental	<u>136,163</u>	<u>330,685</u>	<u>(194,522)</u>	Down 59%
	536,566	635,646	(99,080)	
Bank interest and other revenue	<u>71,560</u>	<u>30,112</u>	<u>41,448</u>	
Total Revenue from Operating Activities	<u>608,126</u>	<u>665,758</u>	<u>(57,632)</u>	Down 9%
(Loss) from ordinary activities	<u>(1,659,458)</u>	<u>(1,175,231)</u>	<u>(484,227)</u>	Up 41%

Total revenue for the half year ended 31 December 2004 decreased by 9% to \$608,126 primarily due to timing of orders for its industrial and environmental products.

Revenues for the Company's personal care products increased by 31% in comparison to the December 2003 half year due to increased demand as five suncare products incorporating ZinClear<sup>®</sup> were launched in Australia and overseas in 2004. The December 2004 half year also saw increased demand for Alusion<sup>®</sup> (albeit from a small base) as customers completed their product development activities and launched new cosmetic products.

Revenue associated with Advanced Nano's industrial and environmental products were down by 59% over the previous period as the Company's major customer, Cerulean Limited, awaited the completion of its field trials in Hong Kong and the UK. Following Cerulean's December 2004 confirmation of the Stagecoach Group's plans to introduce Envirox<sup>™</sup>, Advanced Nano has recommenced shipments and has received increased orders for the coming months.

Whilst Advanced Nano's total revenue for the December 2004 half year was in line with the corresponding period last year, its loss increased from \$1.18 million to \$1.66 million. This increase is predominately associated with the transfer of key staff from ANT its previously 50% owned subsidiary to Advanced Nano, as ANT concluded its scale-up activities. These staff are now carrying out Advanced Nano's new product development activities and supporting the commercial production of its nanomaterials products, crucial to the long term success of the Company. In addition, the Company's finance and administration overheads have increased due to the Company's change in status to a public company and in preparation for its initial public offering. The majority of these overhead items are essentially fixed in nature and the Company does not expect to see similar overhead increases in future periods. Production staff levels have also increased to meet growing customer demand.

#### **PLANT EXPANSION**

Advanced Nano's plant expansion program is underway to provide increased capacity to meet current and expected growing demand for its products. Certain key items of equipment have been purchased in order to bring in-house two costly and time consuming processes that are currently being outsourced. Based on current plans, the Company expects Phase I of the plant will become operational in the September 2005 quarter.

#### **OUTLOOK**

Negotiations are continuing on the terms of a supply agreement between Cerulean Limited and Advanced Nano, which the Company expects to conclude within the current half year. On 31 January 2005, Oxonica Limited (Cerulean's parent company) announced, that following the successful UK commercial evaluation of Envirox<sup>™</sup> with the Stagecoach Group, Oxonica is partnering with BASF to introduce Envirox<sup>™</sup> to the Philippines.

Advanced Nano and Buhler AG are finalising a six month extension of their non-binding Heads of Agreement to evaluate formation of a joint venture for the manufacture and sales of nanomaterials dispersions worldwide. The large private Swiss-based Buhler AG is a global specialist in the field of plant design and construction and related services for transforming renewable and synthetic raw materials into high-quality functional products and valuable substances.

With these developments, and the actions taken by the Company over the past twelve months, the Directors believe the Company is now well placed to take advantage of the opportunities and potential for its nanotechnology products.

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

## APPENDIX 4D – HALF-YEAR REPORT 31 DECEMBER 2004

<b>Name of entity</b>	Advanced Nanotechnology Limited
<b>ABN</b>	54 079 845 855

### RESULTS FOR ANNOUNCEMENT TO THE MARKET

#### FINANCIAL RESULTS

					<u>2004</u>		<u>2003</u>
					\$		\$
Revenue from ordinary activities	Down	57,632	9%	To	608,126	From	665,758
Net profit/(loss) from ordinary activities after tax attributable to members	Up	(484,227)	41%	To	(1,659,458)	From	(1,175,231)
Net profit/(loss) for the period attributable to members	Up	(484,227)	41%	To	(1,659,458)	From	(1,175,231)

#### DIVIDENDS

There is no proposal to pay dividends in respect of the 2005 financial year.

#### NET TANGIBLE ASSET BACKING

	December 2004	June 2004	December 2003
Net tangible asset backing per ordinary security	\$0.043	\$0.043	\$0.013

#### DETAILS OF ENTITIES OVER WHICH ADVANCED NANOTECHNOLOGY LIMITED GAINED CONTROL

During the reporting period, control was not gained over any entity.

On 24 January 2005, the company's 50% owned joint venture entity, 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.

#### DETAILS OF ASSOCIATES AND JOINT VENTURE ENTITIES

Advanced Nanotechnology Limited, at 31 December 2004, 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. The joint venture entity made a loss for the half year to 31 December 2004, and the company's 50% share of that loss for the period was \$120,003 (2003: \$632,973).

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# Advanced Nanotechnology Limited

ACN 079 845 855

## Half-Year Report – 31 December 2004

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## DIRECTORS' REPORT

The Directors of Advanced Nanotechnology Limited present their report together with the financial report of the Company for the half-year ended 31 December 2004 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) – Appointed on 4 November 2004

Dr. Paul McCormick (Chief Executive Officer)

Mr. John McNally (Non-Executive Director) – Resigned 27 July 2004

Mr. Haetak Choi (Non-Executive Director) – Resigned 7 August 2004

Mr. Eric (Mick) Bolto (Non-Executive Director) – Resigned 1 September 2004

Mr. Kim Heitman (Non-Executive Director) – Resigned 1 January 2005

### Principal Activities

During the year the principal continuing activities of the Company were the development and commercialisation of advanced nanomaterials and nanomaterials products. There have been no changes in the Company's principal activities since the prior year.

### Results of Operations

#### HIGHLIGHTS

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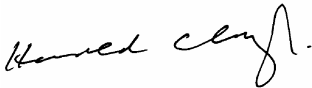
With these developments, and the actions taken by the Company over the past twelve months, the Directors believe the Company is now well placed to take advantage of the opportunities and potential for its nanotechnology products.

#### Auditors' Independence Declaration

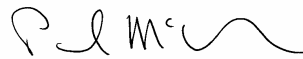
Section 307 of the Corporations Act 2001 requires the company's auditors, Ernst & Young, to provide the directors with a written Independence Declaration in relation to their review of the financial report for the half year ended 31 December 2004. The written Auditors Independence Declaration is attached to the Auditors Independent Review Report and forms part of this Director's Report

Dated at Perth, Western Australia this 28<sup>th</sup> day of February 2005.

Signed in accordance with a resolution of the Directors:



WH Clough (Chairman)  
Director



PG McCormick (CEO)  
Director

**CONDENSED STATEMENT OF FINANCIAL PERFORMANCE**

<b>HALF-YEAR ENDED 31 DECEMBER</b>	Notes	<b>2004</b> \$	2003 \$
<b>Revenue from ordinary activities</b>	2	<b>608,126</b>	665,758
Changes in inventories of finished goods and work in progress		<b>(127,640)</b>	(139,331)
Employee benefits expense		<b>(46,549)</b>	(38,953)
Salaries and oncosts		<b>(651,852)</b>	(168,548)
Depreciation and amortisation expenses	2	<b>(303,004)</b>	(269,588)
Share of Joint Venture loss accounted for using the equity method		<b>(120,003)</b>	(632,973)
Advertising expenses		<b>(11,427)</b>	(20,278)
Borrowing costs expenses	2	<b>(17,196)</b>	(119,142)
Consultancy expense		<b>(154,439)</b>	(51,359)
Directors Fees		<b>(77,083)</b>	-
Equipment rental expense		<b>(94,423)</b>	(78,292)
Foreign Exchange Gain/(Loss)	2	<b>2,286</b>	10,363
Freight & Duty		<b>(44,731)</b>	(56,033)
Insurance expense		<b>(89,536)</b>	(44,217)
Occupancy		<b>(100,127)</b>	(22,990)
Payroll tax expense		<b>(33,932)</b>	(6,483)
Provision for doubtful debts		<b>49,117</b>	(11,501)
Repairs & Maintenance		<b>(133,289)</b>	(43,766)
Travel and accomodation expenses		<b>(66,748)</b>	(19,039)
Other expenses from ordinary activities		<b>(247,008)</b>	(128,859)
<b>(Loss) from ordinary activities before related income tax expense</b>		<b><u>(1,659,458)</u></b>	<u>(1,175,231)</u>
Income tax expense		<b>-</b>	-
<b>(Loss) from ordinary activities after related income tax expense</b>		<b><u>(1,659,458)</u></b>	<u>(1,175,231)</u>
Share issue costs		<b>(100,036)</b>	-
<b>Total revenues, expenses and valuation adjustments attributable to members of Advanced Nanotechnology Limited and recognised directly in equity</b>		<b><u>(100,036)</u></b>	<u>-</u>
<b>Total changes in equity attributable to members of Advanced Nanotechnology Limited other than those resulting from transactions with owners as owners</b>		<b><u>(1,759,494)</u></b>	<u>(1,175,231)</u>
Basic (loss) per share (\$ per share)		<b>\$(0.014)</b>	\$(0.014)
Diluted (loss) per share (\$ per share)		<b>\$(0.014)</b>	\$(0.014)

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

**CONDENSED STATEMENT OF FINANCIAL POSITION**

	<b>31 DECEMBER 2004</b>	30 JUNE 2004
	Notes	
	\$	\$
<b>Current Assets</b>		
Cash assets	1,655,456	2,435,518
Receivables	303,216	141,179
Inventories	236,446	160,262
Other	267,346	7,769
Total Current Assets	<u>2,462,464</u>	<u>2,744,728</u>
<b>Non-Current Assets</b>		
Cash assets	261,586	166,585
Investments accounted for using the equity method	2,250,463	2,370,466
Property, plant and equipment	983,879	603,258
Intangible assets	4,742,201	4,899,709
Total Non-Current Assets	<u>8,238,129</u>	<u>8,040,018</u>
<b>Total Assets</b>	<u>10,700,593</u>	<u>10,784,746</u>
<b>Current Liabilities</b>		
Payables	160,748	362,766
Interest bearing liabilities	76,659	33,317
Provisions	69,742	55,659
Other	256,979	421,107
Total Current Liabilities	<u>564,128</u>	<u>872,849</u>
<b>Non-Current Liabilities</b>		
Interest bearing liabilities	261,848	278,507
Total Non-Current Liabilities	<u>261,848</u>	<u>278,507</u>
<b>Total Liabilities</b>	<u>825,976</u>	<u>1,151,356</u>
<b>Net Assets</b>	<u>9,874,617</u>	<u>9,633,390</u>
<b>Equity</b>		
Contributed Equity	3 19,473,273	17,572,588
Option Premium Reserve	23,702	23,702
Accumulated (Losses)	<u>(9,622,358)</u>	<u>(7,962,900)</u>
<b>Total Equity</b>	<u>9,874,617</u>	<u>9,633,390</u>

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

**CONDENSED STATEMENT OF CASH FLOWS**

<b>HALF-YEAR ENDED 31 DECEMBER</b>	<b>2004</b>	<b>2003</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>		
Receipts from customers	423,124	448,635
Payments to suppliers and employees	<u>(2,580,768)</u>	<u>(840,791)</u>
	<u>(2,157,644)</u>	<u>(392,156)</u>
Interest received	71,330	13,141
<b>Net cash (outflow) from operating activities</b>	<u><b>(2,086,314)</b></u>	<u><b>(379,015)</b></u>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(480,485)	(168,216)
Purchase of patents and trademarks	(45,631)	(21,680)
Purchase of licenses	-	(749,840)
Payment of security deposit	(95,000)	(34,777)
Repayment of loan to related party	-	250,000
<b>Net cash (outflow) from investing activities</b>	<u><b>(621,116)</b></u>	<u><b>(724,513)</b></u>
<b>Cash flows from financing activities</b>		
Proceeds from issues of shares and other equity securities	2,000,721	-
Share issue costs	(100,036)	-
Proceeds from borrowings	26,683	20,457
<b>Net cash inflow from financing activities</b>	<u><b>1,927,368</b></u>	<u><b>20,457</b></u>
<b>Net (decrease) in cash held</b>	<u><b>(780,062)</b></u>	<u><b>(1,083,071)</b></u>
Cash at the beginning of the half year	<u>2,435,518</u>	<u>1,363,224</u>
<b>Cash at the end of the half year</b>	<u><b>1,655,456</b></u>	<u><b>280,153</b></u>

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

**NOTES TO THE FINANCIAL STATEMENTS****1. Basis of preparation of the half-year financial report**

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the 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 2004. It is also recommended that the half year financial report be considered with any public announcements made to the date of this report and also in conjunction with the Prospectus dated 10 January 2005 in relation to the Company's application for admittance to the official list of the Australian Stock Exchange ("ASX") and initial public offering ("IPO").

**(a) Basis of accounting**

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views).

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

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

**(b) Changes in accounting policies**

The accounting policies applied are consistent with the most recent annual financial report for the year ended 30 June 2004.

**(c) Impact of Adoption of Australian Equivalents to International Accounting Standards ("AIFRS")**

Significant differences exist between Australian Generally Accepted Accounting Principles (AGAAP) and International Financial Reporting Standards (IFRS). Advanced Nanotechnology Limited will be required to comply with Australian Equivalent to International IFRS for the financial reporting period beginning 1 July 2005. Conversion to AIFRS will result in many changes to accounting policies and therefore will impact on the financial performance and position of the company.

The Chief Financial Officer of Advanced Nanotechnology Limited is managing the transition to Australian Equivalent to International Financial Reporting Standards, including ensuring key staff members are appropriately trained and systems are changed as necessary. At the date of this report the project team has obtained initial advice on key potential implications and has prepared a timetable for detailed review of all standards including calculation of the financial impact of conversion.

The Company has not quantified the potential AIFRS impact on financial performance and the financial position of adopting IFRS, however, the key potential implications for ANO of conversion to AIFRS are understood to be as follows:

*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.

*Intangible Assets*

- AASB 138 *Intangible Assets* sets out many factors for consideration when determining useful life of an intangible asset. This approach is more stringent than that required under existing AGAAP. Currently intellectual property rights, patents and trademarks are being amortised in accordance with the Company's accounting policy as set out in Annual Financial Statements dated 30 June 2004.
- To the extent that an ongoing assessment indicates that the current useful life does not meet with consideration of the factors noted in AASB 138, then the useful life will be adjusted accordingly.

*Provisions for Decommissioning and/or Land Decontamination*

- AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* requires that a provision, being a liability of uncertain timing or amount, be recognised when the following conditions are met:
  - an entity has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.
- To the extent that ANO and/or ANT have an obligation to decommission and remove the existing plant and/or remediate the Welshpool site, whether imposed by legislation or created by published or expected practice, AASB 137 will operate to require a provision for the expected costs to be recognised.

**(c) Impact of Adoption of Australian Equivalents to International Accounting Standards (continued)***Provisions for Decommissioning and/or Land Decontamination (continued)*

- This provision is calculated as the present value of the expected costs to be incurred in decommissioning/remediation, using the today's costs (i.e. future technology ignored), inflated to the period during which the outflow of economic benefits are expected to occur. On initial recognition, an amount equal to the provision is added to the carrying value of plant and equipment. This amount is amortised on the same basis and over the same period as the plant and equipment, and an annual accretion charge (interest expense) is also recognised as the discount implicit in the present value of the decommission provision "unwinds".

*Share-Based Payments*

- AASB 2 Share Based Payments will require entities to recognise the fair value of share-based payments, including options issued to employees and suppliers issued in return for the rendering of services, as expenses in the profit and loss account.
- AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards sets out the transitional requirements for the accounting for share-based payments and requires that accounting and disclosure requirements must be applied to share-based payment transactions in which equity instruments were issued after 7 November 2002 but were not vested at 1 January 2005.
- The valuation considerations for these equity instruments are complex and we recommend that separate advice be obtained to assist management in the determination of the appropriate fair values to be ascribed for accounting and disclosure purposes.

*Government Grants*

- AASB 120 Accounting for Government Grants and Disclosure of Government Assistance requires that government grants received be recognised in income over periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. AASB 120 also operates to defer grant revenue received in respect of asset purchases (or grants of assets themselves). This deferred revenue is then recognised as income on a systematic basis over the life of the asset.
- This differs from the current AGAAP treatment, which requires grant revenue to be recognised when the following conditions exist:
  - the entity gains control of the contribution or the right to receive the contribution;
  - it is probable that the economic benefits comprising the contribution will flow to the entity; and
  - the amount of the contribution can be measured reliably.
- Adjustments to the transition date balance sheet at 30 June 2004 will be required if either of the three following circumstances exist:
  - government grants have been recognised as revenue prior to 30 June 2004, however, the costs to which they relate are to be incurred in a future period. In this instance, revenue should be de-recognised and deferred to the period in which costs will be incurred;
  - government grants for the acquisition of assets have been recognised immediately as revenue in prior periods, and the assets to which they relate remain on the balance sheet. In these instances, that portion of grant revenue relating to the unamortized balance of the asset will need to be de-recognised and deferred for recognition over the remaining useful life of the asset; or
  - government grants for the acquisition of assets have been offset against the cost of acquisition of the asset. These assets will be required to be recognised retrospectively at their gross cost (i.e. excluding any grant offset) and depreciated in accordance with AASB 116. Grant revenue in respect of these assets will need to be deferred from the date on which the grant was received and recognised retrospectively in income systematically in accordance with the life of the related asset.

*Taxation*

- AASB 112 Income Taxes requires a fundamental change in the way in which income tax is accounted for, specifically, the measurement and recognition of deferred tax assets and liabilities. Current AGAAP utilises an "Income Statement" approach to calculate deferred taxation balances, whereas AIFRS requires a "Balance Sheet" approach. This method entails a comparison of tax and accounting balance sheets to calculate any required adjustment to deferred taxation balances and will necessitate the determination of a tax balance sheet for the first time.
- The recognition criteria for deferred tax assets have also changed under AASB 112. Under current AGAAP, the benefits of future tax losses or timing differences must only be recognised when their realisation is beyond reasonable doubt, or in the cases of companies incurring tax losses, when their realisation is virtually certain. AASB 112 requires that realisation of future income tax benefits be probable in order for deferred tax assets to be realised.

**2. Profit from ordinary activities**

	2004	2003
	\$	\$
<b>Revenue from operating activities</b>		
Sales to customers	<u>536,566</u>	<u>635,646</u>
	<b>536,566</b>	<b>635,646</b>
<b>Revenue from outside operating activities</b>		
Bank interest	71,330	13,141
Other revenue	<u>230</u>	<u>16,971</u>
	<b>71,560</b>	<b>30,112</b>
Revenue from ordinary activities	<u><b>608,126</b></u>	<u>665,758</u>
<b>Expenses and Losses / (Gains)</b>		
Cost of goods sold	621,823	333,679
Depreciation - Plant and equipment	99,865	66,082
Amortisation - Intangibles	203,139	203,506
Bad and doubtful debts - trade debtors	(49,717)	11,501
Borrowing costs - Interest and finance charges paid/payable	17,196	119,142
Other provisions - Employee Entitlements	46,549	38,953
Operating lease rental - Minimum lease payments	94,423	78,992
Research and development	397,913	68,357
Net foreign currency losses/(gains)	<u>(2,286)</u>	<u>(10,363)</u>

**3. Contributed Equity**

	2004	2004		
	Number	\$		
Issued and paid up capital	<u>120,271,202</u>	<u>19,473,272</u>		
<b>Details</b>	<b>Date</b>	<b>No. Shares Pre Conversion</b>	<b>No. Shares Post Conversion</b>	<b>\$</b>
Opening balance	1 July 2004	31,227	110,267,435	17,572,587
Share issue (private placement)	25 August 2004	<u>2,833</u>	<u>10,003,767</u>	<u>2,000,721</u>
		34,060	120,271,202	19,573,308
Less transaction costs arising on share issues - private placement		-	-	(100,036)
Balance	31 December 2004	<u>34,060</u>	<u>120,271,202</u>	<u>19,473,272</u>

On 25 August 2004, the Company issued 2,833 ordinary shares, raising a total of \$2,000,721. These shares were issued as part of a private placement. Share placement costs of \$100,036 were incurred in relation to this issue.

Pursuant to a resolution of shareholders, on 4 November 2004, the Company underwent a capital reconstruction such that each Ordinary Share and Option on issue was converted into 3,531.157 Ordinary Shares and Options.

#### 4. Segment information

##### Segment products and locations

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

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

##### Primary segment – Business segments

	Personal Care		Industrial & Environmental		Consolidated	
	2004	2003	2004	2003	2004	2003
	\$	\$	\$	\$	\$	\$
<b>Revenue</b>						
Sales to customers	<u>400,403</u>	304,961	<u>136,163</u>	330,685	<u>536,566</u>	635,646
Total segment revenue	<u>400,403</u>	<u>304,961</u>	<u>136,163</u>	<u>330,685</u>	<u>536,566</u>	<u>635,646</u>
Non-segment revenues						
Bank interest					<u>71,330</u>	13,141
Other revenue					<u>230</u>	16,971
Total non-segment revenues					<u>71,560</u>	<u>30,112</u>
Total revenue from ordinary activities					<u>608,126</u>	<u>665,758</u>
<b>Results</b>						
Share of JV Loss					<u>(120,003)</u>	(632,973)
Unallocated expenses					<u>(2,147,581)</u>	<u>(1,208,016)</u>
Profit from ordinary activities before income tax expense					<u>(1,659,458)</u>	(1,175,231)
Income tax expense					<u>-</u>	<u>-</u>
Profit from ordinary activities after income tax expense					<u>(1,659,458)</u>	<u>(1,175,231)</u>
<b>Assets</b>						
Unallocated assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,700,593</u>	8,999,613
Total assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,700,593</u>	<u>8,999,613</u>

#### 5. Events occurring after reporting date

On 24 January 2005, the Company's 50% owned joint venture entity, 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.

Pursuant to a prospectus lodged with the Australian Securities and Investment Commission on 10 January 2005, on 17 February 2005 the Company issued 45 million ordinary shares raising a total of \$9 million in capital. On 22 February 2005, the Company was admitted to the official list of the Australian Stock Exchange, and on 24 February 2005, the trading of the Company's shares commenced.

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.

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.

The Directors have also approved approximately 6.5 million options to be issued to employees, upon official quotation of the shares on the ASX. The offers had not been issued to the employees at the date of this report. These options will have a minimum exercise price of \$0.308 per option, a term of five years and subject to exercise restrictions and otherwise on the terms of the Employee Share Option Plan.

**5. Events occurring after reporting date (continued)**

On 23 February 2005, the Company announced it intends to issue a further prospectus for the underwritten offer of up to 2,500,000 ordinary shares at \$0.20 per share, to raise an additional \$500,000. This offer will be extended to a single institutional investor who wished to subscribe for shares pursuant to the prospectus dated 10 January 2005 but whose subscription application could not be fully satisfied under that prospectus.

## DIRECTORS' DECLARATION

The directors declare that the financial statements and notes set out on pages 4 to 11:

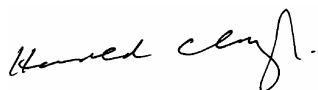
- (a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the Company's financial position as at 31 December 2004 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date.

In the directors' opinion:

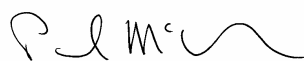
- (a) the financial statements and notes are in accordance with the Corporations Act 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Perth, Western Australia this 28<sup>th</sup> day of February 2005.

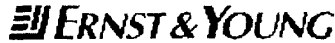
Signed in accordance with a resolution of the Directors:



WH Clough (Chairman)  
Director



PG McCormick (CEO)  
Director



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### Independent Review Report to Members of Advanced Nanotechnology Limited

#### Scope

##### *The financial report and directors' responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows and accompanying notes to the financial statements for the consolidated entity comprising both Advanced Nanotechnology Limited (the company) and the entities it controlled during the half-year, and the directors' declaration for the company, for the half-year ended 31 December 2004.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity, and that complies with Accounting Standard AASB 1029 "Interim Financial Reporting", in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

##### *Review approach*

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

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the *Corporations Act 2001*, Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

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

#### Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which follows. In addition to our review of the financial report, we were engaged to undertake other services. The provision of these services has not impaired our independence.

#### Statement

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

- (a) the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2004 and of its performance for the half-year ended on that date; and
  - (ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.

Ernst & Young

V W Tidy  
Partner  
Perth  
28 February 2005

Liability limited by the Accountants Scheme, appro  
the Professional Standards Act 1994 (NSW).



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### **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 2004, 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.

A handwritten signature in black ink, appearing to read 'V W Tidy'.

Ernst & Young

A handwritten signature in black ink, appearing to read 'V W Tidy'.

V W Tidy  
Partner  
Perth  
28 February 2005