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ASX ANNOUNCEMENT  
(ASX: ANO)

24 OCTOBER 2005

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## **QUARTERLY REPORT TO SHAREHOLDERS**

Advanced Nanotechnology Limited (Advanced Nano) is pleased to provide an update on its operations for the first quarter of the 2006 financial year.

Sales to customers for the September quarter totalled approximately \$804,000 (unaudited) up from \$445,000 in the June quarter and representing approximately 53% of the total sales for the 2005 financial year (\$1,502,512).

A significant highlight this month for Advanced Nano has been the announcement that the Company has been awarded the 2005 Frost and Sullivan Excellence in Technology Award for Nanomaterials in recognition of the Company's successful pioneering efforts in the development of the Mechanochemical Processing (MCP™) technology.

### **SALES AND MARKETS**

#### Personal Care

The September quarter saw increasing sales of both the ZinClear® and Alusion® product lines. During this period, Advanced Nano has also invested in extending our range of sample formulations, specifically engineered to target the needs of European and Japanese markets. Whilst testing is still underway, initial customer feedback is encouraging. Advanced Nano believes an ability to provide new example formulations to current and potential customers is an important marketing and sales initiative, and expects to see the first benefit from these latest formulations in the 2006 Northern Hemisphere summer.

#### Industrial and Environmental

A major contributor to Advanced Nano's September quarter product sales were deliveries of the Cercat™ cerium oxide dispersion to Oxonica plc (UK) for use as the active catalyst material in their Envirox™ fuel catalyst.

Whilst the September quarter Industrial and Environmental revenues increased over the previous quarter, Advanced Nano expects a reduction in sales to Oxonica during the December quarter while Oxonica processes our first quarter deliveries. Demand from existing Envirox™ customers appears to have stabilised now that their stock pipelines are filled. Advanced Nano continues to expect future growth as Oxonica's new customers transfer from the evaluation/trial phase to regular consumption. In September, Oxonica reported a contract was signed for a trial with a second major UK bus company and depots are now being selected for the trial.

Advanced Nano and Oxonica continue to negotiate a formal supply agreement for the manufacture and supply of Oxonica's Envirox™ product. The Company believes that this agreement is on track to conclude within the current calendar year.

## **PLANT EXPANSION**

During the September quarter, Advanced Nano has continued to make progress towards meeting increased customer demand through its plant expansion program and ongoing equipment upgrades and maintenance.

Activities associated with bringing all ZinClear® manufacturing in-house to reduce costs, decrease customer delivery lead time, and improve product quality, have been accelerated during September with the initial installation of infrastructure support and equipment site location for the first of two key production processes. Over the past quarter, Advanced Nano has also taken delivery of new process equipment to implement further processing required in the manufacture of Envirox™ that is currently being carried out overseas at Oxonica. This equipment is now ready for installation and commissioning, which will take place later this year.

## **BUSINESS DEVELOPMENT**

Advanced Nano and Bühler AG (Switzerland) continue to explore a collaboration on nanoparticle dispersions for industrial coatings and plastics applications, with initial focus on the market for Advanced Nano's zinc oxide products.

Growth opportunities for transparent functional coatings are also being investigated. Potential new alliances in the areas of polymer films and transparent inks with three Australian and international companies that operate in these sectors are currently being evaluated. Customer testing of NanoZ®-AQ, Advanced Nano's new solvent free low VOC, UV blocking zinc oxide dispersion for the protection of timber, is now being carried out by five coatings companies.

## **RESEARCH AND PRODUCT DEVELOPMENT**

Product development during the quarter was focussed on the development of new products in response to customer needs. It is expected that two new products in the Personal Care and Industrial Coatings segments will be introduced to customers for evaluation in the second quarter.

In the September quarter, a study was carried out by the University of Queensland to evaluate the in vitro skin penetration of two formulations containing ZinClear®. The tests showed that there was no statistical difference in the levels of zinc released through the skin by the two formulations of ZinClear® and baseline values measured with placebo formulations containing no zinc.

## **ANNUAL GENERAL MEETING**

The Company's AGM will be held on Thursday, 27 October 2005. Details as follows:

Date: Thursday, 27 October 2005  
Time: 3.00pm (WST)  
Location: University of Western Australia  
University House (Seminar Room 1)  
Hackett Drive (Entrance 1)  
Nedlands, Western Australia

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### **FURTHER INFORMATION:**

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