

---

ASX ANNOUNCEMENT (ASX: ANO)

30 AUGUST 2007

FURTHER INFORMATION

Paul McCormick, Chief Executive Officer

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

---

## **ADVANCED NANO REPORTS 2007 FINANCIAL RESULTS**

Advanced Nanotechnology Limited (Advanced Nano or the Company) today announced its results for the year ended 30 June 2007.

During the 2007 financial year, Advanced Nano significantly increased its investment in business development and sales and marketing to capitalise on the strong interest in its technologies and products across an increasing range of applications. The encouraging early sales trends following the launch of new products such as ZinClear-IM™ have been supported by enhanced sales and marketing activity. Underlying production gross margins on variable costs have improved as process improvements and other production economies have come into effect. Supported by the Federal Government's Commercial Ready grant, the Company has also continued to invest in research, product and applications development in the important new markets of transparent functional coatings and technical ceramics.

### **HIGHLIGHTS**

- Sales to customers for the 2007 financial year totalled \$2.8 million, an increase of 4% compared to 2006. Encouraging sales growth of 33% for the ZinClear® product range was offset by a reduction of Personal Care sales resulting from the discontinuation of a customer's cosmetics line incorporating Alusion® in the US market. Sales of Industrial & Environmental products were adversely affected by the termination of a major supply agreement held by Advanced Nano's customer Oxonica plc;
- Gross profit as a percentage of sales to customers, excluding one-time effects, improved to 21% from 17%. Inclusion of a one-time inventory write-off associated with loss of Oxonica business reduced the reported gross profit back to 17%;
- Expensed research and development costs increased by \$0.3m associated with the commencement of the Company's Commercial Ready grant funding. Net expensed research and development expenses were slightly reduced from 2006;
- Business development and sales and marketing expenditures were increased by \$0.6m as the Company made the decision to significantly increase marketing resources in the light of the responses to new product launches by potential major customers. Directors believe that this accelerated market support and application development will result in increased sales in coming years;
- Overall, Advanced Nano's loss for 2007 was \$4.4 million, up from \$3.2 million in 2006. Most of the increased loss is accounted for by increased business development, sales and marketing (up \$0.6m) and a higher non-cash options expense (up \$0.4m); and
- Advanced Nano's Directors believe that the revenue outlook for the 2008 financial year is positive. The Company expects that the implementation of its commercialisation of current products, combined with the launch of new products and the effect of improved manufacturing, provide the foundation for revenue growth and improved trading profitability in 2008.

## FINANCIAL SUMMARY

	2007	2006	Change		
	\$	\$			
<b>Revenue from sale of goods</b>					
Personal Care	1,408,343	1,480,017	(71,674)	Decreased	5%
Industrial & Environmental	1,378,394	1,190,957	187,437	Increased	16%
<b>Total revenue from sale of goods</b>	<b>2,786,737</b>	<b>2,670,974</b>	<b>115,763</b>	<b>Increased</b>	<b>4%</b>
Finance revenue	262,194	401,472	(139,278)	Decreased	35%
Total revenue from continuing operations	<b>3,048,931</b>	<b>3,072,446</b>	(23,515)	Decreased	1%
Cost of goods sold	(2,301,069)	(2,205,676)	(95,393)	Increased	4%
Gross profit (including finance revenue)	747,862	866,770	(118,908)	Decreased	14%
Gross profit (excluding finance revenue)	<b>485,668</b>	<b>465,298</b>	<b>20,370</b>	<b>Increased</b>	<b>4%</b>
As a % of revenue from sale of goods *	<b>17%</b>	<b>17%</b>			
Other income	408,800	96,195	312,605	Increased	325%
Expenses and overheads					
Expensed R&D and product development	(702,739)	(443,486)	(259,253)	Increased	58%
Business development, sales and marketing	(1,059,315)	(453,749)	(605,566)	Increased	133%
Corporate and other expenses and overheads	(2,388,546)	(2,162,640)	(225,906)	Increased	10%
Total expenses and overheads	(4,150,600)	(3,059,875)	(1,090,725)	Increased	36%
<b>Net result (loss) before non-cash items</b>	<b>(2,993,938)</b>	<b>(2,096,910)</b>	<b>(897,028)</b>	<b>Increased</b>	<b>43%</b>
Non-cash items not included in above					
Depreciation and amortisation (not included in COGS)	(812,451)	(861,689)	49,238	Decreased	6%
Options expense	(591,470)	(197,260)	(394,210)	Increased	200%
<b>Net (loss) from continuing operations</b>	<b>(4,397,859)</b>	<b>(3,155,859)</b>	<b>(1,242,000)</b>	<b>Increased</b>	<b>39%</b>

\* Excluding a one-time inventory write-off associated with loss of Oxonica business, gross profit for the 2007 financial year was \$585,336 or 21% of revenue from sale of goods.

## PRODUCT REVENUES AND OTHER INCOME

Total revenue from continuing operations for 2007 was \$3,048,931 compared to the 2006 total of \$3,072,446. Sale of goods to customers for the 2007 financial year totalled \$2,786,737, an increase of approximately 4% over the previous year's sales of \$2,670,974.

### Personal Care Products

Sales of Personal Care products for the 2007 financial year were \$1,408,343 compared to \$1,480,017 in the previous financial year.

The Company's best performer in terms of sales growth for the 2007 financial year was its ZinClear® dispersions for the sun care market, with ZinClear® sales increasing by 33% compared to the previous financial year.

The strong sales performance of the ZinClear® range was offset by disappointing sales of Alusion®, which was adversely affected by the one-time effect of the discontinuation of a customer's major cosmetics product line in the US.

The Board is particularly encouraged by the early sales success of the new ZinClear-IM™ product following its launch earlier this financial year, with many companies in Asia, Europe and North America formulating and testing new sun care products based on the ZinClear® range.

In order to better support our North American customers with local stock and services, Advanced Nano recently established its first international subsidiary, Advanced Nano Inc., located in New Jersey, USA. Advanced Nano Inc. is led by a manager with over 20 years of experience in the US personal care market.

---

Advanced Nano has also seen strong interest for our ZinClear® product range in Asia as Asian consumers seek safe and effective daily protection against UVA light to prevent skin tanning. Advanced Nano has therefore redeployed its marketing efforts throughout Asia by engaging and training focused distributors throughout the territory.

#### *Industrial & Environmental*

Sales of Industrial & Environmental products for the 2007 financial year were \$1,378,394 compared to \$1,190,957 in the previous year.

Sales of Cercat™ cerium oxide fuel additive were adversely affected in the second half of the 2007 financial year by the termination of a major supply agreement held by Advanced Nano's customer Oxonica plc with Petrol Ofisi (Turkey). This development resulted in Advanced Nano sales of cerium oxide dispersions to Oxonica ceasing in the March 2007 quarter.

Going forward, the new 5-year supply agreement executed with the Energenics group in June 2007 is expected to provide Advanced Nano with greater sales opportunities for Cercat™ and better access to the world clean burn energy markets. The Directors believe that the Energenics relationship provides an important revenue stream for Advanced Nano. Energenics' investment in Advanced Nano underscores their confidence in the Company's technology and also provides Advanced Nano with extra capital for funding growth in this and other markets.

The NanoZ™ product range continues to attract interest from leading coatings and plastics companies around the world, with lengthy application testing being performed in a broad range of high performance applications. Advanced Nano is successfully broadening NanoZ™ compatibility with a wider range of coatings and plastics systems and reducing product costs to enable broad market penetration.

#### *Finance Revenue*

During the 2007 financial year, interest income reduced from \$401,472 to \$262,194 in line with the Company's net cash usage due to ongoing investment in research and product development and business development, sales and marketing activities.

#### *Other Income*

Other Income, mainly grant income from Advanced Nano's Commercial Ready grant, increased to \$408,800 in 2007 from \$96,195 in 2006.

### **GROSS PROFIT CONTRIBUTION**

Advanced Nano's reported cost of goods sold increased by 4% during the 2007 financial year, from \$2,205,676 to \$2,301,069.

If the effect of one-time charges are excluded, underlying gross profit as a percentage of sales to customers improved to 21% in 2007 from 17% in 2006. A one-time inventory write-off of \$99,668 during the 2007 financial year was associated with stock held exclusively for sales to Oxonica plc. The effect of this inventory write-off reduced Advanced Nano's 2007 reported gross margin to 17% of sales to customers (\$485,668 in 2007 vs \$465,298 in 2006).

The Company's ongoing process refinement efforts have continued to reduce our direct variable production costs with cost reductions achieved via the reduction of raw materials costs, direct labour cost reductions, bringing in-house some previously outsourced processes for Cercat™ production, and in better managing waste disposal costs.

Indirect production overheads however increased during 2007 with reductions in repairs and maintenance and operating costs offset by increases in occupancy costs (due to a market rent review during the year) and indirect production labour. Depreciation of production equipment and amortisation of development costs also increased reflecting the Company's increasing investment in production capacity and product range.

These indirect production overheads remain largely fixed as sales and production volumes increase. Advanced Nano estimates that the current production overhead base will support significantly higher sales. Consequently, in future years the Company expects to see more substantial increases in reported profits as increased sales and product margins are applied to this fixed base of production overheads.

## EXPENSES AND OVERHEADS

Advanced Nano's total expenses and overheads (including non-cash items) for the 2007 financial year were \$5,554,521 up 35% from \$4,118,824 in the previous financial year.

	2007	2006	Change		
	\$	\$			
Total expenses and overheads as above:					
Expensed R&D and product development	702,739	443,486	259,253	Increased	58%
Business development, sales and marketing	1,059,315	453,749	605,566	Increased	133%
Corporate and other expenses and overheads	2,388,546	2,162,640	225,906	Increased	10%
Depreciation and amortisation (not included in COGS)	812,451	861,689	(49,238)	Decreased	6%
Options expense	591,470	197,260	394,210	Increased	200%
	<u>5,554,521</u>	<u>4,118,824</u>	<u>1,435,697</u>	Increased	35%
Total expenses and overheads per income statement:					
Labour and personnel expenses	3,333,051	2,332,061	1,000,990	Increased	43%
Travel and related expenses	308,047	124,594	183,453	Increased	147%
Occupancy expenses	154,985	121,273	33,712	Increased	28%
Other operating costs	66,353	60,248	6,105	Increased	10%
Corporate overheads	672,906	454,547	218,359	Increased	48%
Sales and marketing expenses	155,182	81,148	74,034	Increased	91%
Depreciation & amortisation	812,451	861,689	(49,238)	Decreased	6%
Other expenses	27,848	57,245	(29,397)	Decreased	51%
Finance costs	23,698	26,019	(2,321)	Decreased	9%
	<u>5,554,521</u>	<u>4,118,824</u>	<u>1,435,697</u>	Increased	35%

- Labour and personnel expenses – 2007 expenses included a non-cash expense of \$591,470 associated with the issue of employee share options, the majority of which vested in February 2007 (2006: \$197,260). A further \$174,438 non-cash expense will be recognised in future financial years based upon employee options outstanding at year end;
- Excluding the impact of the options expense, 2007 labour and personnel expenses were \$2,741,581 compared to \$2,134,801 in the previous period, an increase of 28%. Underlying labour and personnel expenses for business development, sales and marketing increased by \$413,676 for the year as Advanced Nano significantly increased its product sales and application support to customers and prospective customers;
- Travel and related expenses – increased by 147% as the Company responded to the growing interest in its products and technologies and an expanding network of overseas distributors and customers across an increasing range of applications. These expenses include customer and distributor visits, along with attendance at international conferences and trade shows;
- Occupancy expenses – increased by 28% due to market rent reviews and the relocation of its research and development facilities to accommodate the increased activities associated with our Commercial Ready projects and increased technical support for sales and marketing;
- Other operating costs – relates to consumables, chemicals and other operating costs which are consumed in research and development and other non production activities. These costs increased during 2007 due to the commencement of the Commercial Ready grant projects and product scaleup of the new ZinClear-IM™ and NanoZ-AQ products;
- Corporate overheads – in 2007, the Company significantly increased its investment in investor relations activities (\$141,461 compared to \$12,857 in 2006). Excluding investor relations costs, corporate overheads were \$531,445 compared to \$441,690, an increase of 20%. Savings in insurance premiums were offset by increases in general office expenses due to

---

increasing headcount, and increased audit and legal fees as the Company's operations expanded;

- Sales and marketing expenses – the increase of \$74,034 reflects additional investment in overseas marketing, including sample formulations for planned product launches and additional brochures and marketing materials for an increased coverage of tradeshows. The cost of shipping and producing samples also increased substantially in 2007 to support new product launches for ZinClear-IM™ and Nanoz®-AQ;
- Depreciation and amortisation expenses – this is predominantly the amortisation of the Company's intellectual property portfolio. Production plant depreciation and product development amortisation is included in cost of goods sold;
- Other expenses – predominantly foreign exchange losses recognised on USD bank balances, offset by a write-back of the 2006 doubtful debts provision as funds were collected from a previously doubtful debtor; and
- Finance costs – interest charges on the Company's two chattel mortgages, in line with the previous year.

### **OUTLOOK FOR 2008 FINANCIAL YEAR**

Advanced Nano's Directors believe that the outlook for the 2008 financial year is positive.

Across all products, our efforts in improving our production processes are yielding consistent reductions in unit manufacturing costs and improved throughput, enabling Advanced Nano to penetrate broader volume segments of the market.

In the Personal Care sector, Advanced Nano is seeing promising early sales trends following the launch of the new ZinClear-IM™. Since the end of the financial year, the Company has experienced a significant increase in orders for its sun care products and is currently working with a number of manufacturers formulating new sun care products with the aim of introducing products over the current year.

In the Industrial and Environmental sector, the 2008 financial year is expected to be a transition year, where the negative effects stemming from the reduction in sales to Oxonica are offset by product and market development activities and sales to Energenics.

We expect that NanoZ™ will continue to attract new potential customers, although the lengthy testing cycles required by coating manufacturers means that volume sales will take time to materialise.

Product development activities in 2008 will focus on expanding applications for existing products, broadening product range (including those jointly funded within the Commercial Ready Grant framework), and formulating new products for Energenics.

The Company continues to explore opportunities for strategic alliances and other business development activities to facilitate growth for its advanced materials products.

Our recent share placement to Energenics, agreed prior to the end of the 2007 financial year, increased our cash reserves by \$3m. This agreement provides for a further investment of \$3m by Energenics within two years, or earlier if certain sales targets are met. Energenics' investment in Advanced Nano underscores their confidence in the Company's technology and also provides Advanced Nano with extra capital for funding growth in this and other markets.

The Directors believe that implementation of its current commercialisation activities, expanded distribution networks, the strategic alliance with Energenics, and ongoing product development activities, will form the basis of continued growth in future years.

ENDS

## APPENDIX 4E – PRELIMINARY FINAL REPORT - 30 JUNE 2007

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

### REPORTING PERIOD

Reporting period	1 July 2006 to 30 June 2007
Previous corresponding period	1 July 2005 to 30 June 2006

### RESULTS FOR ANNOUNCEMENT TO THE MARKET

Revenue from ordinary activities	Down	23,515	1%	To	3,048,931	From	3,072,446
Net (loss) from ordinary activities after tax attributable to members	Up	(1,242,000)	39%	To	(4,397,859)	From	(3,155,859)
Net (loss) for the period attributable to members	Up	(1,242,000)	39%	To	(4,397,859)	From	(3,155,859)

### DIVIDENDS

The Company does not propose to pay a dividend in respect of the 2007 financial year.

### LOSS PER SHARE

Reporting period	2.62 cents per share
Previous corresponding period	1.88 cents per share

### NET TANGIBLE ASSETS PER SECURITY

Reporting period	2.32 cents per share
Previous corresponding period	4.40 cents per share

### ENTITIES OVER WHICH CONTROL HAS BEEN GAINED OR LOST DURING THE PERIOD

On 17 May 2007, Advanced Nano Inc. was established in New Jersey, USA. This wholly owned subsidiary did not commence trading until financial year 2008 and hence made no contribution to Advanced Nano's loss during the year.

### DETAILS OF ASSOCIATES AND JOINT VENTURE ENTITIES

The Company has no associates or joint ventures at the end of financial year 2007.

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

This preliminary final report is based upon accounts which have been audited, upon which our auditor has advised they will issue an unqualified audit opinion.

**CONSOLIDATED INCOME STATEMENT**  
For the year ended 30 June 2007

	Notes	CONSOLIDATED	
		2007	2006
		\$	\$
<b>Continuing operations</b>			
<b>Revenue</b>	2	3,048,931	3,072,446
Cost of goods sold		<u>(2,301,069)</u>	<u>(2,205,676)</u>
<b>Gross profit</b>		747,862	866,770
Other income	2	408,800	96,195
Labour and personnel expenses	2	(3,333,051)	(2,332,061)
Travel and related expenses		(308,047)	(124,594)
Occupancy expenses		(154,985)	(121,273)
Other operating costs		(66,353)	(60,248)
Corporate overheads		(672,906)	(454,547)
Sales and marketing expenses		(155,182)	(81,148)
Depreciation and amortisation		(812,451)	(861,689)
Other expenses		(27,848)	(57,245)
Finance costs	2	<u>(23,698)</u>	<u>(26,019)</u>
<b>Loss before income tax</b>		<u>(4,397,859)</u>	<u>(3,155,859)</u>
Income tax expense		-	-
<b>Loss after tax from continuing operations</b>		<u>(4,397,859)</u>	<u>(3,155,859)</u>
<b>Net loss attributable to members of parent</b>		<u>(4,397,859)</u>	<u>(3,155,859)</u>
Loss per share (cents per share)			
- basic for loss for the year		(2.62)	(1.88)
- diluted for loss for the year		(2.62)	(1.88)
- dividends paid per share		Nil	Nil

**CONSOLIDATED BALANCE SHEET**  
As at 30 June 2007

	Notes	CONSOLIDATED	
		2007	2006
		\$	\$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	4	2,168,836	5,718,870
Trade and other receivables	5	208,354	499,377
Inventories	6	751,631	277,788
Prepayments	7	33,611	17,085
Other financial assets	8	140,106	36,971
<b>Total Current Assets</b>		<b>3,302,538</b>	<b>6,550,091</b>
<b>Non-Current Assets</b>			
Other financial assets	9	132,131	261,535
Property, plant and equipment	10	1,984,651	1,706,009
Intangible assets	11	6,365,972	6,669,146
<b>Total Non-Current Assets</b>		<b>8,482,754</b>	<b>8,636,690</b>
<b>TOTAL ASSETS</b>		<b>11,785,292</b>	<b>15,186,781</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	12	98,179	167,987
Interest bearing loans and borrowings	13	64,326	33,317
Provisions	14	180,977	114,773
Deferred income	15	318,609	53,463
Other liabilities	15	432,359	266,215
<b>Total Current Liabilities</b>		<b>1,094,450</b>	<b>635,755</b>
<b>Non-Current Liabilities</b>			
Interest bearing loans and borrowings	13	147,546	211,873
Provisions	14	205,036	164,113
Deferred income	15	86,386	116,777
<b>Total Non-Current Liabilities</b>		<b>438,968</b>	<b>492,763</b>
<b>TOTAL LIABILITIES</b>		<b>1,533,418</b>	<b>1,128,518</b>
<b>NET ASSETS</b>		<b>10,251,874</b>	<b>14,058,263</b>
<b>Equity</b>			
Issued capital	16	28,012,445	28,012,445
Option premium reserve	16	928,723	337,253
Accumulated losses	16	(18,689,294)	(14,291,435)
<b>Parent Interests</b>		<b>10,251,874</b>	<b>14,058,263</b>
<b>TOTAL EQUITY</b>		<b>10,251,874</b>	<b>14,058,263</b>

**CONSOLIDATED CASH FLOW STATEMENT**  
**For the year ended 30 June 2007**

	Notes	CONSOLIDATED	
		2007	2006
		\$	\$
<b>Cash flows from operating activities</b>			
Receipts from customers		3,320,134	2,445,582
Payments to suppliers and employees		(6,316,728)	(4,735,189)
		<u>(2,996,594)</u>	<u>(2,289,607)</u>
Receipt of government grants		466,952	34,574
Interest received		288,513	380,328
Borrowing costs		(23,698)	(26,019)
<b>Net cash (outflows) from operating activities</b>		<u>(2,264,827)</u>	<u>(1,900,724)</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(746,857)	(470,364)
Purchase of patents, trademarks, development costs		(439,061)	(273,998)
<b>Net cash (outflows) from investing activities</b>		<u>(1,185,918)</u>	<u>(744,362)</u>
<b>Cash flows from financing activities</b>			
Transaction costs of issue of shares		-	(11,604)
Repayment of borrowings		(33,315)	(33,317)
<b>Net cash (outflows) from financing activities</b>		<u>(33,315)</u>	<u>(44,921)</u>
<b>Net (decrease) in cash and cash equivalents held</b>		(3,484,060)	(2,690,007)
Cash and cash equivalents at the beginning of the year		5,718,870	8,405,549
Exchange rate adjustment		(65,974)	3,328
<b>Cash and cash equivalents at the end of the year</b>	4	<u><u>2,168,836</u></u>	<u><u>5,718,870</u></u>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 30 June 2007**

	Attributable to equity holders of the parent			
	Issued capital \$	Option premium reserve \$	Accumulated losses \$	Total \$
<b>As 1 July 2005</b>	28,024,049	139,993	(11,135,576)	17,028,466
Total income and expense for the period recognised directly in equity	-	-	-	-
(Loss) for the period	-	-	(3,155,859)	(3,155,859)
Total income/(expense) for the period	-	-	(3,155,859)	(3,155,859)
Share issue costs	(11,604)	-	-	(11,604)
Cost of share-based payment	-	197,260	-	197,260
<b>At 30 June 2006</b>	<u>28,012,445</u>	<u>337,253</u>	<u>(14,291,435)</u>	<u>14,058,263</u>
<b>As 1 July 2006</b>	28,012,445	337,253	(14,291,435)	14,058,263
Total income and expense for the period recognised directly in equity	-	-	-	-
(Loss) for the period	-	-	(4,397,859)	(4,397,859)
Total income/(expense) for the period	-	-	(4,397,859)	(4,397,859)
Cost of share-based payment	-	591,470	-	591,470
<b>At 30 June 2007</b>	<u>28,012,445</u>	<u>928,723</u>	<u>(18,689,294)</u>	<u>10,251,874</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2007

### 1. SEGMENT INFORMATION *continued*

#### (a) Primary segment – Business segments

	Personal Care		Industrial & Environmental		Consolidated	
	2007	2006	2007	2006	2007	2006
	\$	\$	\$	\$	\$	\$
Revenue						
Sales to customers	1,408,343	1,480,017	1,378,394	1,190,957	2,786,737	2,670,974
Total segment revenue	1,408,343	1,480,017	1,378,394	1,190,957	2,786,737	2,670,974
Non-segment revenues						
Interest revenue					262,194	401,472
Total revenue					3,048,931	3,072,446
Other income					408,800	96,195
Total consolidated revenue					3,457,731	3,168,641
Results						
Unallocated expenses					(7,855,590)	(6,324,500)
Loss before income tax expense					(4,397,859)	(3,155,859)
Income tax expense					-	-
Loss after income tax expense					(4,397,859)	(3,155,859)
Assets						
Unallocated assets					11,785,292	15,186,781
Total assets					11,785,292	15,186,781
Liabilities						
Unallocated liabilities					1,533,418	1,128,518
Total liabilities					1,533,418	1,128,518

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2007

### 1. SEGMENT INFORMATION continued

#### (a) Primary segment – Business segments continued

	Personal Care		Industrial & Environmental		Consolidated	
	2007	2006	2007	2006	2007	2006
	\$	\$	\$	\$	\$	\$
Other segment information						
Acquisition of property, plant and equipment, intangibles assets and other non current assets					1,273,163	811,446
Depreciation					455,041	418,314
Amortisation					742,235	704,070
Inventory write-down					144,829	-
Impairment of development costs					87,249	32,497
					<u>2,662,517</u>	<u>1,966,327</u>
Cash flow information						
Net cash flow from operating activities					(2,264,827)	(1,900,724)
Net cash flow from investing activities					(1,185,918)	(744,362)
Net cash flow from financing activities					(33,315)	(44,921)
					<u>(3,484,060)</u>	<u>(2,690,007)</u>

#### (b) Secondary segment – Geographic segments

	Australasia		North America		Europe		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
	\$	\$	\$	\$	\$	\$	\$	\$
Segment revenue	1,746,743	1,275,870	245,920	459,543	1,465,068	1,433,228	3,457,731	3,168,641
Segment assets	11,785,292	15,186,781	-	-	-	-	11,785,292	15,186,781
Other segment information								
Acquisition of property, plant and equipment, intangibles assets and other non current assets	1,273,163	811,446	-	-	-	-	1,273,163	811,446
	<u>1,273,163</u>	<u>811,446</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,273,163</u>	<u>811,446</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2007

	CONSOLIDATED	
	2007	2006
	\$	\$
<b>2. REVENUES AND EXPENSES</b>		
<b>(a) Revenue</b>		
Sale of goods	2,786,737	2,670,974
Finance revenue	262,194	401,472
	<u>3,048,931</u>	<u>3,072,446</u>
<i>Breakdown of finance revenue:</i>		
Bank interest receivable	262,194	401,472
Total finance revenue	<u>262,194</u>	<u>401,472</u>
<b>(b) Other income</b>		
Government grants realised	408,800	96,195
Total other income	<u>408,800</u>	<u>96,195</u>
<b>(c) Employee benefits expense</b>		
Wages and salaries and oncosts	2,230,368	1,742,559
Defined contribution superannuation expense	233,518	181,293
Directors fees	179,699	153,729
Annual and long service leave provision	97,996	57,220
Share-based payments expense	591,470	197,260
	<u>3,333,051</u>	<u>2,332,061</u>
<b>(d) Depreciation, amortisation, foreign exchange differences and costs of inventories included in the income statement</b>		
Included in cost of goods sold:		
Depreciation	248,376	183,220
Amortisation of development costs	136,448	77,475
Net foreign exchange differences	-	(3,479)
	<u>384,824</u>	<u>257,216</u>
Cost of inventories recognised as an expense	<u>1,017,862</u>	<u>1,305,463</u>
Included in depreciation and amortisation:		
Depreciation	206,665	235,094
Amortisation of patents, trademarks and licences	605,786	603,551
Amortisation of development costs	-	23,044
	<u>812,451</u>	<u>861,689</u>
<b>(e) Finance costs</b>		
Finance charges payable on Chattel Mortgages	<u>23,698</u>	<u>26,019</u>
<b>(f) Research and development costs</b>		
Research and development costs included in the income statement	<u>702,739</u>	<u>574,350</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2007

	CONSOLIDATED	
	2007	2006
	\$	\$
<b>2. REVENUES AND EXPENSES</b> <i>continued</i>		
<b>(g) Lease payments and other expenses included in income statement</b>		
Included in cost of sales:		
Minimum lease payments - operating lease	33,245	42,966
	<u>33,245</u>	<u>42,966</u>
<b>3. LOSS PER SHARE</b>		
Net (loss) attributable to ordinary equity holders of the parent	(4,397,859)	(3,155,859)
	<u>(4,397,859)</u>	<u>(3,155,859)</u>
	Number	Number
Weighted average number of ordinary shares for basic (loss) per share	167,771,202	167,771,202
Weighted average number of ordinary shares adjusted for the effects of dilution	167,771,202	167,771,202
	<u>167,771,202</u>	<u>167,771,202</u>
<u>Potential ordinary shares not considered dilutive</u>		
As at 30 June 2007, the Company had on issue 22,065,361 unissued ordinary shares under options. These options have not been considered dilutive as (i) the notional exercise of these options would decrease basic loss per share; and (ii) their exercise price is greater than the average market price for the year.		
<b>4. CASH AND CASH EQUIVALENTS</b>		
Cheque account	23,946	83,750
Grant Account	205,780	-
USD account	411,652	132,693
Cash on deposit	1,527,458	5,502,427
	<u>2,168,836</u>	<u>5,718,870</u>
<b>Reconciliation of net loss after tax to net cash flows from operations</b>		
(Loss) from ordinary activities after income tax	(4,397,859)	(3,155,859)
Depreciation and amortisation	1,197,275	1,122,384
Share-based payments	591,470	197,260
Loss on disposal of property, plant & equip	13,170	26,922
Provision for Diminution	-	-
Change in operating assets and liabilities		
Decrease/(increase) in receivables	349,274	(70,120)
Decrease/(increase) in other assets	9,734	(39,112)
Decrease/(increase) in inventories	(566,154)	82,509
Increase/(decrease) in accruals	502,067	(122,766)
Increase/(decrease) in payables	(72,917)	(9,927)
Increase/(decrease) in provisions	43,139	71,313
Net cash (outflows) from operating activities	<u>(2,330,801)</u>	<u>(1,897,396)</u>
Less exchange rate adjustment	65,974	(3,328)
Net cash (outflows) from operating activities	<u>(2,264,827)</u>	<u>(1,900,724)</u>

---

**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 30 June 2007**

---

	CONSOLIDATED	
	2007	2006
	\$	\$
<b>5. TRADE AND OTHER RECEIVABLES</b>		
Trade receivables	187,162	536,435
Allowance for doubtful debts	-	(63,990)
	<u>187,162</u>	<u>472,445</u>
Goods and services tax (GST) receivable	21,192	26,932
Carrying amount of trade and other receivables	<u>208,354</u>	<u>499,377</u>
<b>6. INVENTORIES</b>		
Raw materials (at cost)	216,119	108,885
Work in progress (at cost)	263,995	146,816
Finished goods (at cost)	224,659	22,087
Goods in transit (at cost)	46,858	-
	<u>751,631</u>	<u>277,788</u>
<b>7. PREPAYMENTS</b>		
Prepayments	<u>33,611</u>	<u>17,085</u>
<b>8. OTHER FINANCIAL ASSETS (CURRENT)</b>		
Cash on deposit	129,454	-
Accrued interest income	10,652	36,971
	<u>140,106</u>	<u>36,971</u>
<b>9. OTHER FINANCIAL ASSETS (NON CURRENT)</b>		
Cash on deposit	<u>132,131</u>	<u>261,535</u>
<b>10. PROPERTY, PLANT AND EQUIPMENT</b>		
<u>Plant and Equipment</u>		
At cost	4,023,080	3,289,394
Accumulated depreciation	(2,038,429)	(1,583,385)
Net carrying amount	<u>1,984,651</u>	<u>1,706,009</u>
<b>11. INTANGIBLE ASSETS</b>		
Patents, trademarks and licences	848,711	853,247
Intellectual property rights	4,747,719	5,269,544
Development costs	769,542	546,355
	<u>6,365,972</u>	<u>6,669,146</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2007

	CONSOLIDATED			
	2007	2006		
	\$	\$		
<b>12. TRADE AND OTHER PAYABLES</b>				
Trade creditors	31,040	103,957		
Other payables	67,139	64,030		
Carrying amount of trade and other payables	<u>98,179</u>	<u>167,987</u>		
<b>13. INTEREST BEARING LOANS AND BORROWINGS</b>				
<u>Current</u>				
Loan facility - chattel mortgage	85,735	57,015		
Unexpired interest on mortgage	(21,409)	(23,698)		
	<u>64,326</u>	<u>33,317</u>		
<u>Non Current</u>				
Loan facility - chattel mortgage	158,699	244,435		
Unexpired interest on mortgage	(11,153)	(32,562)		
	<u>147,546</u>	<u>211,873</u>		
<b>14. PROVISIONS</b>				
	Restoration/De-commissioning	Long Service Leave	Annual Leave	Total
	\$	\$	\$	\$
At 1 July 2006	38,000	64,353	176,533	278,886
Arising during the year	-	38,980	239,825	278,805
Utilised during the year	-	-	(171,678)	(171,678)
At 30 June 2007	<u>38,000</u>	<u>103,333</u>	<u>244,680</u>	<u>386,013</u>
Current 2007		13,259	167,718	180,977
Non-current 2007	38,000	90,074	76,962	205,036
	<u>38,000</u>	<u>103,333</u>	<u>244,680</u>	<u>386,013</u>
Current 2006	-	-	114,773	114,773
Non-current 2006	38,000	64,353	61,760	164,113
	<u>38,000</u>	<u>64,353</u>	<u>176,533</u>	<u>278,886</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2007

	CONSOLIDATED	
	2007	2006
	\$	\$
<b>15. OTHER LIABILITIES</b>		
<u>Current</u>		
<i>Deferred income</i>		
Unearned grant income	142,006	53,463
Unearned income	176,603	-
	<u>318,609</u>	<u>53,463</u>
<i>Other liabilities</i>		
Accrued expenses	432,359	266,215
	<u>432,359</u>	<u>266,215</u>
<u>Non-Current</u>		
<i>Deferred income</i>		
Unearned grant income	86,386	116,777
	<u>86,386</u>	<u>116,777</u>
<b>16. CONTRIBUTED EQUITY AND RESERVES</b>		
<b>Issued and paid up capital</b>		
Issued and paid up capital	<u>28,012,445</u>	<u>28,012,445</u>
<b>Option premium reserve</b>		
<u>Options</u>		
Option premium reserve	<u>928,723</u>	<u>337,253</u>
<b>Accumulated losses</b>		
Movements in accumulated losses were as follows:		
As at 1 July 2006	(14,291,435)	(11,135,576)
Net loss for the year	<u>(4,397,859)</u>	<u>(3,155,859)</u>
As at 30 June 2007	<u>(18,689,294)</u>	<u>(14,291,435)</u>

## 17. CONTINGENT ASSETS AND LIABILITIES

### (a) Contingent Assets

There were no contingent assets as at 30 June 2007 or 30 June 2006.

### (b) Contingent Liabilities

On 11 October 2006, Advanced Nano was awarded a grant of \$1,947,755 under the Australian Government's Commercial Ready Program. At 30 June 2007, four instalments have been received from the Commonwealth totalling \$417,617 (GST exclusive), \$408,800 of which was recognised as income during the year.

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

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

---

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2007

---

### 17. CONTINGENT ASSETS AND LIABILITIES continued

#### (b) Contingent Liabilities continued

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

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

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

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

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

### 18. EVENTS OCCURRING AFTER REPORTING DATE

On 25 July 2007, and in accordance with Advanced Nano's strategic relationship executed with the Energenics group in June 2007, the Company issued the following securities to Energenics Holdings Pte Limited:

- (1) 13,636,364 ordinary shares at an issue price of \$0.22 per share totalling \$3,000,000. The shares were issued on the same terms as existing ordinary shares; and
- (2) 4,545,455 options at an exercise price of \$0.308 per share expiring on 30 June 2012.