Rules 4.1, 4.3

Appendix 4B (rule 4.13(b))

Preliminary half yearly report

Introduced 1/7/2000. Amended 30/9/2001.

Name of entity

Advanced Engine Components Limited

ABN	Half yearly *(tick)*	Preliminary final *(tick)*	Half year ended ('current period')
67 009 081 770	✓		31 December 2002

For announcement to the market

Extracts from this report for announcement to the market (see note 1).

				$A'000
Revenues from ordinary activities *(item 1.1)*	Up	527%	to	2,773
Loss from ordinary activities after tax (before amortisation of goodwill) attributable to members *(item 1.20)*	Down	41%	to	(2,191)
Loss from ordinary activities after t ax attributable to members (*item 1.23*)	Down	41%	to	(2,191)
Loss from extraordinary items after tax attributable to members (*item 2.5(d)*)	gain (loss) of	-		-
Loss for the period attributable to members *(item 1.11)*	Down	41%	to	(2,191)

Dividends (distributions)	Amount per security	Franked amount per security
Final dividend *(Preliminary final report only - item 15.4)* Interim dividend *(Half yearly report only - item 15.6)*	NA	NA
Previous corresponding period *(Preliminary final report - item 15.5; half yearly report - item 15.7)*	0 ¢	0 ¢

+ See chapter 19 for defined terms.

+Record date for determining entitlements to the dividend, (in the case of a trust, distribution) *(see item 15.2)*	NA

Brief explanation of omission of directional and percentage changes to profit in accordance with Note 1 and short details of any bonus or cash issue or other item(s) of importance not previously released to the market:

Consolidated Statement of Financial Performance

		Current period – $A'000	Previous corresponding period - $A'000
1.1	Revenues from ordinary activities	2,773	442
1.2	Expenses from ordinary activities (*see items 1.24 + 12.5 + 12.6*)	(4,789)	(4,108)
1.3	Borrowing costs	(175)	(52)
1.4	Share of net profit (loss) of associates and joint venture entities (*see item 16.7*)	-	-
1.5	**Loss from ordinary activities before tax**	**(2,191)**	**(3,718)**
1.6	Income tax on ordinary activities *(see note 4)*	-	-
1.7	**Loss from ordinary activities after tax**	**(2,191)**	**(3,718)**
1.8	Profit (loss) from extraordinary items after tax (*see item 2.5*)	-	-
1.9	**Net loss**	**(2,191)**	**(3,718)**
1.10	Net loss attributable to outside +equity interests	-	-
1.11	**Net loss for the period attributable to members**	**(2,191)**	**(3,718)**
	Total revenues, expenses and valuation adjustments attributable to members and recognised directly in equity	-	-
	Total changes in equity other than those resulting from transactions with owners as owners	**(2,191)**	**(3,718)**

+ See chapter 19 for defined terms.

Consolidated accumulated losses

1.12	Accumulated losses at the beginning of the financial period	(28,945)	(22,533)
1.13	Net loss attributable to members (*item 1.11*)	(2,191)	(3,718)
1.14	Net transfers to and from reserves	352	-
1.15	Net effect of changes in accounting policies	-	-
1.16	Dividends and other equity distributions paid or payable	-	-
1.17	**Retained profits (accumulated losses) at end of financial period**	**(30,784)**	**(26,251)**

Loss restated to exclude amortisation of goodwill		Current period $A'000	Previous corresponding period $A'000
1.18	Loss from ordinary activities after tax before outside equity interests (*items 1.7*) and amortisation of goodwill	(2,191)	(3,693)
1.19	Less (plus) outside +equity interests	-	-
1.20	**Loss from ordinary activities after tax (before amortisation of goodwill) attributable to members**	**(2,191)**	**(3,693)**

Loss from ordinary activities attributable to members

		Current period $A '000	Previous corresponding period $A '000
1.21	Loss from ordinary activities after tax (*item 1.7*)	(2,191)	(3,718)
1.22	Less (plus) outside +equity interests	-	-
1.23	**Loss from ordinary activities after tax, attributable to members**	**(2,191)**	**(3,718)**

+ See chapter 19 for defined terms.

Revenue and expenses from ordinary activities

AASB 1004 requires disclosure of specific categories of revenue and AASB 1018 requires disclosure of expenses from ordinary activities according to either their nature of function. Entities must report details of revenue and expenses from ordinary activities using the layout employed in their financial reports. See also items 12.1 to 12.6.

		Current period $A '000	Previous corresponding period $A '000
1.24	Details of revenue and expenses		
	Sales revenue	2,642	439
	Cost of sales	(1,489)	(275)
	Gross profit	1,153	164
	Other revenue	131	3
	Distribution expenses	(162)	(37)
	Marketing expenses	(392)	(493)
	Occupancy expenses	(99)	(47)
	Service expenses	(215)	(544)
	Administration expenses	(1,197)	(1,991)
	Research & development	(807)	(710)
	Borrowing expenses	(175)	(52)
	Other expenses	(428)	(11)

Intangible and extraordinary items

		Consolidated - current period			
		Before tax $A '000 (a)	Related tax $A '000 (b)	Related outside +equity interests $A '000 (c)	Amount (after tax) attributable to members $A '000 (d)
2.1	Amortisation of goodwill	-	-	-	-
2.2	Amortisation of other intangibles	-	-	-	-
2.3	**Total amortisation of intangibles**	-	-	-	-
2.4	Extraordinary items (details)	-	-	-	-
2.5	**Total extraordinary items**	-	-	-	-

+ See chapter 19 for defined terms.

Comparison of half year profits *(Preliminary final report only)*		Current year - $A	Previous year - $A
3.1	Consolidated profit (loss) from ordinary activities after tax attributable to members reported for the *1st* half year (item 1.23 in the half yearly report)	n/a	n/a
3.2	Consolidated profit (loss) from ordinary activities after tax attributable to members for the *2nd* half year	n/a	n/a

Consolidated Statement of Financial Position		At end of current period $A'000	As shown in last annual report $A'000	As in last half yearly report $A'000
	Current assets			
4.1	Cash	12	8	469
4.2	Receivables	1,371	2,109	527
4.3	Investments	-	-	-
4.4	Inventories	754	625	730
	Current tax assets	-	-	-
	Other financial assets	-	-	-
4.5	Other (provide details if material)	13	114	55
4.6	**Total current assets**	**2,150**	**2,856**	**1,781**
	Non-current assets			
4.7	Receivables	-	-	-
4.8	Investments (equity accounted)	-	-	-
4.9	Other investments	-	-	-
4.10	Inventories	-	-	-
4.11	Exploration and evaluation expenditure capitalised (see para .71 of *AASB 1022*)	-	-	-
4.12	Development properties (+mining entities)	-	-	-
4.13	Other property, plant and equipment (net)	511	1,112	1,308
4.14	Intangibles (net)	-	-	-
	Deferred tax assets	-	-	-
4.15	Other financial assets	-	1	1
4.16	**Total non-current assets**	**511**	**1,113**	**1,309**
4.17	**Total assets**	**2,661**	**3,969**	**3,090**

+ See chapter 19 for defined terms.

Consolidated Statement of Financial Position continued

	Current liabilities			
4.18	Payables	2,701	2,509	2,248
4.19	Interest bearing liabilities	183	3,549	1,058
4.20	Provisions	464	146	129
4.21	Other (provide details if material)	831	807	47
4.22	**Total current liabilities**	**4,179**	**7,011**	**3,482**
	Non-current liabilities			
4.23	Payables	3,322	-	-
4.24	Interest bearing liabilities	442	525	642
4.25	Provisions	38	62	50
4.26	Other (provide details if material)	-	-	-
4.27	**Total non-current liabilities**	**3,802**	**587**	**692**
4.28	**Total liabilities**	**7,981**	**7,598**	**4,174**
4.29	**Net liabilities**	**(5,320)**	**(3,629)**	**(1,084)**
	Equity			
4.30	Capital/contributed equity	25,464	24,964	24,814
4.31	Reserves	-	352	352
4.32	Accumulated losses	(30,784)	(28,945)	(26,250)
4.33	**Equity attributable to members of the parent entity**	**(5,320)**	**(3,629)**	**(1,084)**
4.34	Outside +equity interests in controlled entities	-	-	-
4.35	**Total deficiency in equity**	**(5,320)**	**(3,629)**	**(1,084)**
4.36	Preference capital included as part of 4.33	-	-	-

+ See chapter 19 for defined terms.

Exploration and evaluation expenditure capitalised

To be completed only by entities with mining interests if amounts are material. Include all expenditure incurred regardless of whether written off directly against profit.

		Current period $A	Previous corresponding period - $A
5.1	Opening balance	n/a	n/a
5.2	Expenditure incurred during current period	n/a	n/a
5.3	Expenditure written off during current period	n/a	n/a
5.4	Acquisitions, disposals, revaluation increments, etc.	n/a	n/a
5.5	Expenditure transferred to Development Properties	n/a	n/a
5.6	**Closing balance as shown in the consolidated balance sheet** *(item 4.11)*	n/a	n/a

Development properties

(To be completed only by entities with mining interests if amounts are material)

		Current period $A	Previous corresponding period - $A
6.1	Opening balance	n/a	n/a
6.2	Expenditure incurred during current period	n/a	n/a
6.3	Expenditure transferred from exploration and evaluation	n/a	n/a
6.4	Expenditure written off during current period	n/a	n/a
6.5	Acquisitions, disposals, revaluation increments, etc.	n/a	n/a
6.6	Expenditure transferred to mine properties	n/a	n/a
6.7	**Closing balance as shown in the consolidated balance sheet** *(item 4.12)*	n/a	n/a

+ See chapter 19 for defined terms.

Consolidated statement of cash flows

		Current period $A '000	Previous corresponding period $A '000
	Cash flows related to operating activities		
7.1	Receipts from customers	3,195	499
7.2	Payments to suppliers and employees	(3,050)	(2,786)
7.3	Dividends received from associates	-	-
7.4	Other dividends received	-	-
7.5	Interest and other items of similar nature received	1	1
7.6	Interest and other costs of finance paid	(36)	(18)
7.7	Income taxes paid	-	-
7.8	Other (provide details if material)	-	65
7.9	**Net operating cash flows**	**110**	**(2,239)**
	Cash flows related to investing activities		
7.10	Payment for purchases of property, plant and equipment	(31)	(34)
7.11	Proceeds from sale of property, plant and equipment	131	-
7.12	Payment for purchases of equity investments	-	-
7.13	Proceeds from sale of equity investments	-	-
7.14	Loans to other entities	-	-
7.15	Loans repaid by other entities	-	-
7.16	Other – payments for intellectual property	-	(55)
7.17	**Net investing cash flows**	**100**	**(89)**
	Cash flows related to financing activities		
7.18	Proceeds from issues of +securities (shares, options, etc.)	-	925
7.19	Proceeds from borrowings	294	1,679
7.20	Repayment of borrowings	(400)	-
7.21	Dividends paid	-	-
7.22	Other – Lease payments	(100)	(85)
	Costs of share issues	-	(111)
	Proceeds from leases	-	50
7.23	**Net financing cash flows**	**(206)**	**2,458**
7.24	**Net increase (decrease) in cash held**	**4**	**130**
7.25	Cash at beginning of period *(see Reconciliation of cash)*	8	339
7.26	Exchange rate adjustments to item 7.25.	-	-
7.27	**Cash at end of period** *(see Reconciliation of cash)*	**12**	**469**

+ See chapter 19 for defined terms.

Non-cash financing and investing activities

Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows are as follows. If an amount is quantified, show comparative amount.

During the period, the consolidated entity issued 10,000,000 shares at $0.05 per share to Margrave Holdings Ltd in satisfaction of New Tel Ltd's intercompany borrowings of $500,000. This transaction is not reflected in the Statement of Cash Flows.

Reconciliation of cash

Reconciliation of cash at the end of the period (as shown in the consolidated statement of cash flows) to the related items in the statement of financial position is as follows.	Current period $A '000	Previous corresponding period $A '000
8.1 Cash on hand and at bank	8	2
8.2 Deposits at call	2	-
8.3 Bank overdraft	-	-
8.4 Other – rights issue funds on trust account	-	467
8.5 Total cash at end of period *(item 7.27)*	12	469

Ratios	Current period	Previous corresponding period
9.1 **Profit before tax / revenue** Consolidated profit (loss) from ordinary activities before tax *(item 1.5)* as a percentage of revenue *(item 1.1)*	(79%)	(841%)
9.2 **Profit after tax / +equity interests** Consolidated net profit (loss) from ordinary activities after tax attributable to members *(item 1.9)* as a percentage of equity (similarly attributable) at the end of the period *(item 4.33)*	(41%)	(342%)

Earnings per security (EPS)	Current period	Previous corresponding period

+ See chapter 19 for defined terms.

0.1	Calculation of the following in accordance with *AASB 1027: Earnings per Share* (a) Basic EPS	(0.014)	(0.037)
	(b) Diluted EPS (if materially different from (a))	-	-
	(c) Weighted average number of ordinary shares outstanding during the period used in the calculation of the Basic EPS	160,048,558	100,482,973

NTA backing *(see note 7)*		Current period	Previous corresponding period
11.1	Net tangible asset backing per +ordinary security	(0.033)	(0.007)

Details of specific receipts/outlays, revenues/ expenses

		Current period $A '000	Previous corresponding period $A '000
12.1	Interest revenue included in determining item 1.5	1	1
12.2	Interest revenue included in item 12.1 but not yet received (if material)	-	-
12.3	Interest costs excluded from borrowing costs, capitalised in asset values	-	-
12.4	Outlays (except those arising from the +acquisition of an existing business) capitalised in intangibles (if material)	-	55
12.5	Depreciation and amortisation (excluding amortisation of intangibles)	201	169
12.6	Other specific relevant items not shown in item 1.24 *(see note 15)*	-	-

Control gained over entities having material effect

13.1	Name of entity (or group of entities)	n/a

+ See chapter 19 for defined terms.

13.2	Consolidated profit (loss) from ordinary activities and extraordinary items after tax of the entity (or group of entities) since the date in the current period on which control was +acquired	$
13.3	Date from which such profit has been calculated	
13.4	Profit (loss) from ordinary activities and extraordinary items after tax of the entity (or group of entities) for the whole of the previous corresponding period	$

+ See chapter 19 for defined terms.

Loss of control of entities having material effect

14.1	Name of entity (or group of entities)	n/a
14.2	Consolidated profit (loss) from ordinary activities and extraordinary items after tax of the entity (or group of entities) for the current period to the date of loss of control	n/a
14.3	Date to which the profit (loss) in item 14.2 has been calculated	n/a
14.4	Consolidated profit (loss) from ordinary activities and extraordinary items after tax of the entity (or group of entities) while controlled during the whole of the previous corresponding period	n/a
14.5	Contribution to consolidated profit (loss) from ordinary activities and extraordinary items from sale of interest leading to loss of control	n/a

Reports for business and geographical segments

Information on the business and geographical segments of the entity must be reported for the current period in accordance with AASB 1005: Segment Reporting. Because of the different structures employed by entities, a pro forma is not provided. Segment information should be completed separately and attached to this report

The Company operates in the automotive industry and derives revenues from the sales of products and services in the vehicle engine technologies sector particularly the Transcom natural gas vehicle system and Sprintex supercharger applications

Dividends (in the case of a trust, distributions)

15.1	Date the dividend (distribution) is payable	n/a
15.2	+Record date to determine entitlements to the dividend (distribution) (ie, on the basis of registrable transfers received by 5.00 pm if +securities are not +CHESS approved, or security holding balances established by 5.00 pm or such later time permitted by SCH Business Rules if +securities are +CHESS approved)	n/a
15.3	If it is a final dividend, has it been declared? *(Preliminary final report only)*	n/a

+ See chapter 19 for defined terms.

Amount per security

		Amount per security	Franked amount per security at 36% tax	Amount per security of foreign source dividend
15.4	*(Preliminary final report only)* **Final dividend:** Current year	n/a	n/a	n/a
15.5	Previous year	n/a	n/a	n/a
15.6	*(Half yearly and preliminary final reports)* **Interim dividend:** Current year	0 ¢	0 ¢	0 ¢
15.7	Previous year	0 ¢	0 ¢	0 ¢

Total dividend (distribution) per security (interim *plus* final)

(Preliminary final report only)

		Current year	Previous year
15.8	+Ordinary securities	n/a	n/a
15.9	Preference +securities	n/a	n/a

Half yearly report - interim dividend (distribution) on all securities *or* Preliminary final report - final dividend (distribution) on all securities

		Current period $A	Previous corresponding period $A
15.10	+Ordinary securities	n/a	n/a
15.11	Preference +securities	n/a	n/a
15.12	Other equity instruments	n/a	n/a
15.13	**Total**	n/a	n/a

The +dividend or distribution plans shown below are in operation.

n/a

The last date(s) for receipt of election notices for the +dividend or distribution plans: n/a

Any other disclosures in relation to dividends (distributions)

n/a

+ See chapter 19 for defined terms.

Details of aggregate share of profits (losses) of associates and joint venture entities

		Current period $A	Previous corresponding period $A
16.1	Profit (loss) from ordinary activities before income tax	n/a	n/a
16.2	Income tax on ordinary activities	n/a	n/a
16.3	**Profit (loss) from ordinary activities after income tax**	n/a	n/a
16.4	Extraordinary items net of tax	n/a	n/a
16.5	**Net profit (loss)**	n/a	n/a
16.6	Outside +equity interests	n/a	n/a
16.7	**Net profit (loss) attributable to members**	n/a	n/a

Material interests in entities which are not controlled entities

The economic entity has an interest (that is material to it) in the following entities. If the interest was acquired or disposed of during either the current or previous corresponding period, indicate date of acquisition ("from xx/xx/xx") or disposal ("to xx/xx/xx").

Name of entity	Percentage of ownership interest held at end of period or date of disposal		Contribution to net profit (loss) (*item 1.9*)	
17.1 Equity accounted associates and joint venture entities	Current period	Previous corresponding period	Current period - $A	Previous corresponding period- $A
	n/a	n/a	n/a	n/a
17.2 Total	n/a	n/a	n/a	n/a
17.3 Other material interests	n/a	n/a	n/a	n/a
17.4 Total	n/a	n/a	n/a	n/a

+ See chapter 19 for defined terms.

Issued and quoted securities at end of current period

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Category of +securities	Total number	Number quoted	Issue price per security (see note 14) (cents)	Amount paid up per security (see note 14) (cents)
18.1	**Preference +securities** *(description)*				
18.2	Changes during current period (a) Increases through issues (b) Decreases through returns of capital, buybacks, redemptions				
18.3	**+Ordinary securities**	161,841,511	161,841,511		
18.4	Changes during current period (a) Increases through issues (b) Decreases through returns of capital, buybacks	10,000,000	10,000,000	$0.05	$0.05
18.5	**+Convertible debt securities** *(description and conversion factor)*				
18.6	Changes during current period (a) Increases through issues (b) Decreases through securities matured, converted				
18.7	**Options** *(description and conversion factor)*	-	-	*Exercise price*	*Expiry date (if any)*
18.8	Issued during current period				
18.9	Exercised during current period				
18.10	Expired during current period	55,975,115	55,975,115	$0.33	31/12/02
18.11	**Debentures** *(totals only)*				
18.12	**Unsecured notes** *(totals only)*				

+ See chapter 19 for defined terms.

Segment reporting

(Information on the business and geographical segments of the entity must be reported for the current period in accordance with *AASB 1005: Segment Reporting* and for half year reports, *AASB 1029: Interim Financial Reporting*. Because entities employ different structures a pro forma cannot be provided. Segment information in the layout employed in the entity's +accounts should be reported separately and attached to this report.)

See Attachment 1

Comments by directors

(Comments on the following matters are required by ASX or, in relation to the half yearly report, by *AASB 1029: Interim Financial Reporting*. The comments do not take the place of the directors' report and statement (as required by the Corporations Act) and may be incorporated into the directors' report and statement. For both half yearly and preliminary final reports, if there are no comments in a section, state NIL. If there is insufficient space to comment, attach notes to this report.)

Basis of financial report preparation

19.1 *The financial statements in this report are "condensed financial statements" as defined in AASB 1029: Interim Financial Reporting. This report does not include all the notes of the type normally included in an annual financial report*. [Delete if preliminary final report.]

19.2 *Material factors affecting the revenues and expenses of the economic entity for the current period. In a half yearly report, provide explanatory comments about any seasonal or irregular factors affecting operations.*

During the year the Company continued to develop and progress its commercial activities. The Company's resources for the year were applied to the supply of NGVS production kits to Irisbus, progress Phase 4 its contract with Australian Greenhouse Office for the conversion of 25 Daimler Chrysler natural gas buses, further development of the Bullet Roadster to ADR compliance, and further development and commencement of serial production.

In May 2003 the Directors made the decision to sell the groups Bullet Supercar and High Performance Engine Products divisions. As a result the assets for these divisions have been revalued to net realisable value and recoverable amounts. This resulted in the following expenses:

Revaluation of plant & equipment	341
Diminution of inventories	158

The directors also increased provisions resulting in the following expenses:

Doubtful debts expense	500
Provision for warranty expense	250

+ See chapter 19 for defined terms.

19.3 A description of each event since the end of the current period which has had a material effect and which is not already reported elsewhere in this Appendix or in attachments, with financial effect quantified (if possible).

On 9 January 2003, the Company announced it had entered into a share subscription agreement with Commonwealth Equity, Ltd (CEL). Subject to shareholder approval, a completion of due diligence and other specific terms, CEL were to subscribe for 180,000,000 shares in the Company, for a value of $0.05 per share, raising a total of $9.0 million. Contemporaneously, the Company also entered into a Loan Agreement with CEL for a loan facility of $1.5 million. Security under the Loan Agreement comprises a fixed and floating charge over the Company's assets. On 15 April 2003 the Company extended its loan facility with CEL until 31 May 2003 and has subsequently been extended to 30 June 2004.

On 6 May 2003 CEL notified the Company it no longer planned to subscribe for $9 million worth of shares in the Company.

On 9 May 2003, the Company issued 7,500,000 shares in settlement of a dispute regarding consulting services. These shares were issued at 4.6 cents a share to settle $345,000 in services.

On 23 June 2003, 698 Capital International Ltd (698 Capital) announced its intention to make an off-market takeover for the Company. This offer was subject to a number of defeating conditions.

On 4 July 2003, 698 Capital lodged an off market takeover bid pursuant to a cash offer and bidder's statement. The terms of the offer were 1cent cash for each ordinary share. On 18 July 2003, the Directors lodged their target statement in response to the offer by 698 Capital. On 29 July 2003, 698 Capital announced that its had gained 64.57% of the voting capital and its offer was now unconditional.

On 6 August 2003, the Company entered into a deed of variation with CEL to extend its loan facility from $2.1 million to $2.6 million and the facility was immediately drawn down fully. In addition, the repayment date of the fully drawn facility was extended to 20 June 2004, and subsequently extended to 30 June 2004. As part of the deed of variation, LIM agreed to provide an additional facility of $525,000. The total amount of $600,000 due to LIM is repayable by 20 June 2004.

On 19 August 2003, 698 Capital's takeover offer closed and they were free of all conditions. At the close of the bid period 698 Capital had a relevant interest in 77.81% of the issued shares. 698 Capital announced its intention not to proceed with compulsory acquisition of the remaining shares.

On 28 August 2003, the Company announced the sale of its Bullet Supercar Division to Bullet Performance Products Pty Ltd. The Company will receive $489,000 from the purchaser. The proceeds will be used to extinguish commitments relating to the division and as working capital for the Company's core business.

+ See chapter 19 for defined terms.

19.4 Franking credits available and prospects for paying fully or partly franked dividends for at least the next year.

There have been no changes in accounting policies since the last Annual Report

19.6 Revisions in estimates of amounts reported in previous interim periods. For half yearly reports the nature and amount of revisions in estimates of amounts reported in previous +annual reports if those revisions have a material effect in this half year.

Not Applicable

+ See chapter 19 for defined terms.

19.7 Changes in contingent liabilities or assets. For half yearly reports, changes in contingent liabilities and contingent assets since the last + annual report.

The Company is engaged in a number of disputes with former employees and associates of the consolidated entity. In all cases, the Company will vigorously defend each claim and is of the belief that no further material provision is required for these matters.

Two previous employees, being former owners of the Bullet Supercar business have made claims in regard to their employment agreements, which the Company denies any liability and intends to vigorously defend. At the date of this report, no official proceedings with respect to this matter have been commenced.

Subject to an original Sale of Assets Agreement from July 1992, the Company purchased intellectual property, providing for 2.5% royalty on gross receipts from any sale of product or licensing or sale of technology for a specific patent application. The vendor has made claims in respect of the Company's current contracts in Perth and France with respect to the royalty agreement. An expert engaged by AEC has concluded that the technology encapsulated in the sale of assets agreement is not in current use in the NGVS system. The Company therefore denies any liability in relation to the claims and intends to vigorously defend any future claim. At the date of this report, no official proceedings with respect to this matter have been commenced.

New Tel Limited (New Tel) had a lease with the landlord for the premises encompassing the site occupied by the Company at Herdsman Western Australia. The Company occupied part of the premises under its Management Services Agreement with New Tel. During the period of administration of New Tel, the landlord and AEC agreed to a short-term occupation while it secured alternative premises for a period of three months. A dispute is currently being pursued by the landlord for a claim of approximately $100,000 regarding the Company's occupation. The Company will continue to seek to resolve the matter.

A former director of the Company is seeking a compensation payment from the Company of $150,000. The Company denies any liability and intends to vigorously defend any claim in respect of this dispute. At the date of this report, no official proceedings with respect to this matter have been commenced.

The Company is in dispute with a former employee in regard to retention of equipment and their employment contract. The Company intends to pursue a claim to recover the equipment and vigorously defend the employee's claim of $120,000 made by the employee. At the date of this report, no official proceedings with respect to this matter have been commenced.

+ See chapter 19 for defined terms.

Annual meeting

(Preliminary final report only)

The annual meeting will be held as follows:

Place	Not applicable
Date	
Time	
Approximate date the +annual report will be available	

Compliance statement

1 This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Urgent Issues Group Consensus Views or other standards acceptable to ASX (see note 12).

Identify other standards used	Not Applicable

2 This report, and the +accounts upon which the report is based use the same accounting policies.

3 This report does give a true and fair view of the matters disclosed (see note 2).

4 This report is based on +accounts to which one of the following applies.
(Tick one)

☐	The +accounts have been audited.	X	The +accounts have been subject to review.
☐	The +accounts are in the process of being audited or subject to review.	☐	The +accounts have *not* yet been audited or reviewed.

5 The review report by the auditor is attached.

6 The entity has a formally constituted audit committee.

Sign here: N Schmidt (Company Secretary) Date: 13 October 2003......

Print name: ......Nerida Schmidt..

+ See chapter 19 for defined terms.

Notes

1. **For announcement to the market** The percentage changes referred to in this section are the percentage changes calculated by comparing the current period's figures with those for the previous corresponding period. Do not show percentage changes if the change is from profit to loss or loss to profit, but still show whether the change was up or down. If changes in accounting policies or procedures have had a material effect on reported figures, do not show either directional or percentage changes in profits. Explain the reason for the omissions in the note at the end of the announcement section. Entities are encouraged to attach notes or fuller explanations of any significant changes to any of the items in page 1. The area at the end of the announcement section can be used to provide a cross reference to any such attachment.

2. **True and fair view** If this report does not give a true and fair view of a matter (for example, because compliance with an Accounting Standard is required) the entity must attach a note providing additional information and explanations to give a true and fair view.

3. **Condensed consolidated statement of financial performance**

   Item 1.1 The definition of "revenue" and an explanation of "ordinary activities" are set out in *AASB 1004: Revenue*, and *AASB 1018: Statement of Financial Performance.*

   Item 1.6 This item refers to the total tax attributable to the amount shown in item 1.5. Tax includes income tax and capital gains tax (if any) but excludes taxes treated as expenses from ordinary activities (eg, fringe benefits tax).

4. **Income tax** If the amount provided for income tax in this report differs (or would differ but for compensatory items) by more than 15% from the amount of income tax *prima facie* payable on the profit before tax, the entity must explain in a note the major items responsible for the difference and their amounts. The rate of tax applicable to the franking amount per dividend should be inserted in the heading for the column "Franked amount per security at % tax" for items 15.4 to 15.7.

5. **Condensed consolidated statement of financial position**

   Format The format of the consolidated statement of financial position should be followed as closely as possible. However, additional items may be added if greater clarity of exposition will be achieved, provided the disclosure still meets the requirements of *AASB 1029: Interim Financial Reporting,* and *AASB 1040: Statement of Financial Position.* Also, banking institutions, trusts and financial institutions may substitute a clear liquidity ranking for the Current/Non-Current classification.

   Basis of revaluation If there has been a material revaluation of non-current assets (including investments) since the last +annual report, the entity must describe the basis of revaluation adopted. The description must meet the requirements of *AASB 1010:*

+ See chapter 19 for defined terms.

Accounting for the Revaluation of Non-Current Assets. If the entity has adopted a procedure of regular revaluation, the basis for which has been disclosed and has not changed, no additional disclosure is required.

6. **Condensed consolidated statement of cash flows** For definitions of "cash" and other terms used in this report see *AASB 1026: Statement of Cash Flows*. Entities should follow the form as closely as possible, but variations are permitted if the directors (in the case of a trust, the management company) believe that this presentation is inappropriate. However, the presentation adopted must meet the requirements of *AASB 1026*. +Mining exploration entities may use the form of cash flow statement in Appendix 5B.

7. **Net tangible asset backing** Net tangible assets are determined by deducting from total tangible assets all claims on those assets ranking ahead of the +ordinary securities (ie, all liabilities, preference shares, outside +equity interests etc). +Mining entities are *not* required to state a net tangible asset backing per +ordinary security.

8. **Gain and loss of control over entities** The gain or loss must be disclosed if it has a material effect on the +accounts. Details must include the contribution for each gain or loss that increased or decreased the entity's consolidated profit (loss) from ordinary activities and extraordinary items after tax by more than 5% compared to the previous corresponding period.

9. **Rounding of figures** This report anticipates that the information required is given to the nearest $1,000. If an entity reports exact figures, the $A'000 headings must be amended. If an entity qualifies under ASIC Class Order 98/0100 dated 10 July 1998, it may report to the nearest million dollars, or to the nearest $100,000, and the $A'000 headings must be amended.

10. **Comparative figures** Comparative figures are to be presented in accordance with *AASB 1018* or *AASB 1029 Interim Financial Reporting* as appropriate and are the unadjusted figures from the latest annual or half year report as appropriate. However, if an adjustment has been made in accordance with an accounting standard or other reason or if there is a lack of comparability, a note explaining the position should be attached. For the statement of financial performance, *AASB 1029 Interim Financial Reporting* requires information on a year to date basis in addition to the current interim period. Normally an Appendix 4B to which *AASB 1029 Interim Financial Reporting* applies would be for the half year and consequently the information in the current period is also the year to date. If an Appendix 4B Half yearly version is produced for an additional interim period (eg because of a change of reporting period), the entity must provide the year to date information and comparatives required by *AASB 1029 Interim Financial Reporting*. This should be in the form of a multi-column version of the consolidated statement of financial performance as an attachment to the additional Appendix 4B.

+ See chapter 19 for defined terms.

11. **Additional information** An entity may disclose additional information about any matter, and must do so if the information is material to an understanding of the reports. The information may be an expansion of the material contained in this report, or contained in a note attached to the report. The requirement under the listing rules for an entity to complete this report does not prevent the entity issuing reports more frequently. Additional material lodged with the +ASIC under the Corporations Act must also be given to ASX. For example, a director's report and declaration, if lodged with the +ASIC, must be given to ASX.

12. **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if one exists) must be complied with.

13. **Corporations Act financial statements** This report may be able to be used by an entity required to comply with the Corporations Act as part of its half-year financial statements if prepared in accordance with Australian Accounting Standards.

14. **Issued and quoted securities** The issue price and amount paid up is not required in items 18.1 and 18.3 for fully paid securities.

15 **Details of expenses** *AASB 1018* requires disclosure of expenses from ordinary activities according to either their nature or function. For foreign entities, there are similar requirements in other accounting standards accepted by ASX. *AASB ED 105* clarifies that the disclosures required by *AASB 10*18 must be either *all* according to nature or *all* according to function. Entities must disclose details of expenses using the layout (by nature or function) employed in their +accounts.

The information in lines 1.23 to 1.27 may be provided in an attachment to Appendix 4B.

Relevant Items *AASB 1018* requires the separate disclosure of specific revenues and expenses which are not extraordinary but which are of a size, nature or incidence that disclosure is *relevant* in explaining the financial performance of the reporting entity. The term "relevance" is defined in *AASB 1018*. There is an equivalent requirement in *AASB 1029: Interim Financial Reporting*. For foreign entities, there are similar requirements in other accounting standards accepted by ASX.

16 **Dollars** If reporting is not in A$, all references to $A must be changed to the reporting currency. If reporting is not in thousands of dollars, all references to "000" must be changed to the reporting value.

17. Discontinuing operations

Half yearly report

+ See chapter 19 for defined terms.

All entities must provide the information required in paragraph 12 for half years beginning on or after 1 July 2001.

Preliminary final report

Entities must either provide a description of any significant activities or events relating to discontinuing operations equivalent to that required by paragraph 7.5 (g) of *AASB 1029: Interim Financial Reporting*, or, the details of discontinuing operations they are required to disclose in their +accounts in accordance with *AASB 1042 Discontinuing Operations.*

In any case the information may be provided as an attachment to this Appendix 4B.

18. **Format**

This form is a Word document but an entity can re-format the document into Excel or similar applications for submission to the Companies Announcements Office in ASX.

+ See chapter 19 for defined terms.

Attachment 1

Results by Segment

Business Segments	Natural Gas Engine System	High Performance Engine Products	Bullet Supercars	Unallocated	Consolidated
	$	$	$	$	$
31 December 2002					
Segment revenue	2,614,420	22,191	136,259	-	2,772,870
Segment loss	(452,411)	(139,074)	(1,059,783)	(539,270)	(2,190,538)
31 December 2001					
Segment revenue	364,539	75,945	1,516	-	442,000
Segment loss	(1,674,232)	(632,855)	(703,712)	(707,071)	(3,717,870)

+ See chapter 19 for defined terms.

Horwath

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Independent Review Report to the members of Advanced Engine Components Limited

Scope

We have reviewed the financial report of Advanced Engine Components Limited for the half-year ended 31 December 2002. The financial report includes the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year. The company's directors are responsible for the financial report. We have performed an independent review of the financial report 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 Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia and the Corporations Act 2001, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the company to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of the company's 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 provided is less than that given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Advanced Engine Components Limited is not in accordance with:

(a) the Corporations Act 2001, including:
- (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2002 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 professional reporting requirements in Australia.

Inherent uncertainty regarding continuation as a going concern

Without qualification to the review opinion expressed above, attention is drawn to the following matter. As a result of the matters detailed in Note 1 (b), there is significant uncertainty whether the Company will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements.

Dated at Perth the 8th day of OCTOBER 2003.

HORWATH PERTH
Chartered Accountants

HORWATH PERTH

Glyn O'Brien

GLYN O'BRIEN
Partner

Partners: Glyn O'Brien CA Anthony Bevan CA

Horwath Perth conducts its practice independently of Horwath (WA) Pty Ltd and of all other firms of chartered accountants who are members of Horwath International in Australia