



**ADVANCED ENGINE COMPONENTS LIMITED**

A.C.N. 009 081 770

**ANNUAL REPORT  
2003**

## Annual Financial Report For The Financial Year Ended 30 June 2003

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# Advanced Engine Components Limited

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The Directors present their report together with the financial report of Advanced Engine Components Limited (the Company) and the consolidated financial report of the consolidated entity, being the Company and its controlled entities for the year ended 30 June 2003 and the auditors' report thereon.

## **DIRECTORS**

Throughout the financial year and at the date of this report, the Board of Directors were as follows:

### **Current Directors**

Dr C Daniel Wu

Dr C Daniel Wu has been Chairman of Grand Pacific Petrochemical Corporation, a Taiwan Stock Exchange listed firm, since 1994. Dr Wu also serves as Chairman of BioCare Corporation, a biomedical device manufacturer, and VideoLand Corporation, a television programming company, both based in Taiwan. Previously, Dr Wu was the President of Grand Pacific Petrochemical from 1992 to 1994 and President and Chief Executive Officer of California based Wyse Technology Corporation from 1990 to 1994. He also served as Chairman of the non-profit Monte Jade Science and Technology Association based in California (1993-1994), Chairman of Precision Semiconductor Mask Corporation in Taiwan (1998-2000) and Vice Chairman of the private equity firm Crimson Asia Capital Holdings (1997-2000). He was appointed as Non-executive Chairman on 7 August 2003.

Mr Antony Middleton  
BE MBA FIE (Aust) FCIT  
Appointed: 1997  
Age 60

Mr Middleton holds a Bachelor of Engineering and Master of Business Administration from the University of Western Australia, and a Company Directors' Diploma from the University of New England. Mr Middleton has held senior management positions with government agencies and on various international engineering projects. He is past National Chairman and a Fellow of the Chartered Institute of Transport in Australia, and a fellow of the Institution of Engineers (Australia). He was appointed Chairman of the Company after the resignation of Mr Malone and retired as Chairman on the appointment of Dr Wu. Mr Middleton is employed by the Company as Managing Director.

Mr George Long  
MBA CFA

Mr Long is the Managing Director and Founder of LIM Advisors Limited (LIM Advisors) which he established in 1995. LIM Advisors is an investment advisory business focused on the Asia-Pacific region and has offices in Hong Kong, Tokyo and Mauritius. From 1990 to 1995 he was with Barclays Bank in Asia, including serving on the executive committee for Asia-Pacific and being the managing director and chief investment officer of the Asian operations of what is now called Barclays Global Investors. During 1989-1990 he worked for the British investment firm Gartmore where he was in charge of the Asian operations. From 1986-1989 he was head of the Korean office of Indosuez W.I.Carr Securities. From 1984-1986 he was with the private investment firm of Milbank Tanaka in New York City. From 1981 to 1984 he worked for Manufacturers Hanover Bank (now part of JP Morgan Chase) where he went through the management and credit training programs and was involved in international banking. He is a director of the Alternative Investment Management Association. He was founding president of the Hong Kong Society of Financial Analysts and a governor of the Association for Investment Management & Research (the non-profit association of investment professionals, which grants the CFA charter). He has an MBA in finance from the University of Washington in Seattle, USA, and is a chartered financial analyst. He was appointed a Non-executive Director on 9 May 2003.

Mr Graham Keys  
BEc(Monash) ACA ASIA  
MAICD(Dip)

Mr Keys is a former corporate finance partner of Ernst & Young. During his period with Ernst & Young, Mr Keys was the project leader of a wide variety of corporate advisory assignments, in all industries, for small to large public and private companies. He has experience as Executive Director, and subsequently Managing Director, of a publicly listed company, as non-executive Chairman of a public listed company and as the executive officer of two large private companies. He formed Norvest Corporate Pty Ltd, a specialist corporate advisory firm, in April 2000 and is the current Managing Director of that company. He was appointed a Non-executive Director of the Company on 9 May 2003.

# Advanced Engine Components Limited

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Mr Arthur Wang	Mr Wang is a co-founder and Managing Director of 698 Capital Holdings Limited. He is a Non-Executive Director and Chairman of the Audit Committee of the Hong Kong Stock Exchange listed Linmark Group. Previously, Mr Wang was a co-founder and Executive Director of KGI Asia Limited, a regional investment bank. He was also a Director of the UFJ Finance Asia Finance Technology Fund established by the UFJ Banking Group (formally Sanwa Bank) of Japan. Mr Wang was also a member of the Board and Audit Committee Chairman of Softbank Investment International (Strategic) Limited, the Hong Kong Stock Exchange listed arm of the Softbank Corporation of Japan. Mr Wang received his Juris Doctorate degree from Yale Law School and practiced corporate and securities law in the Hong Kong and New York offices of Skadden, Arps, Slate, Meagher & Flom LLP. He also graduated with Phi Beta Kappa honours and Bachelors of Arts degree from the University of California at Los Angeles. Mr Wang was appointed a Non-executive Director on 7 August 2003.
Mr Thomas Liu	Mr Liu is a co-founder and Managing Director of 698 Capital Holdings Limited. Previously, he was Vice President of Corporate Finance at KGI Asia Limited, a regional investment bank, where he advised clients on over US\$400 million in international investments. He was also a Director of the UFJ Asia Finance Technology Fund established by the UFJ Banking Group of Japan. Previously, Mr Liu worked at PKF Consulting Limited, then a global leader in hospitality consultancy services. He is a graduate with dual Bachelor of Science degrees from Boston University. Mr Liu was appointed a Non-executive Director on 7 August 2003.
Mr William Lee CFA FCCA	Mr Lee is a Director and Chief Financial Officer of 698 Capital Holdings Limited. He is a Chartered Financial Analyst and Chartered Certified Accountant. Previously, Mr Lee was Assistant Vice President at KGI Asia and Corporate Finance Officer at China Development Finance (now BOCI Asia). He has also worked as Senior Accountant with KPMG Peat Marwick, performing financial audits and special assignments for various public companies in Hong Kong and China. Mr Lee received a Masters of Business Administration from the Hong Kong University of Science and Technology in 1997. Mr Lee was appointed as an Executive Director and Chief Financial Officer on 7 August 2003.
<b>Former Directors</b>	
Mr Anthony Hamilton Managing Director (from 16 December 2002 to 9 May 2003)	Mr Hamilton was appointed Managing Director of the Company after Mr Middleton vacated the position to take up the role of Chairman.  Mr Hamilton resigned as Managing Director on 9 May 2003.
Mr Peter Malone	Retired from office of Chairman and Director 16 December 2002.
Mr Steven Apedaile	Appointed as a Non-executive Director in January 2003. Resigned as of the 9 May 2003.
Mr Dean Van Drasek	Appointed a Non-executive Director as of the 9 May 2003. Resigned on the 7 August 2003.
Mr Michael Nacson	Appointed a Non-executive Director as of the 9 May 2003. Resigned on the 7 August 2003.
Mr Peter Jermyn	Appointed a Non-executive Director as of the 9 May 2003. Resigned on the 4 June 2003.

# Advanced Engine Components Limited

## DIRECTORS' MEETINGS

The number of Directors' meeting and number of meetings attended by each of the Directors of the Company during the financial year as detailed below:

Directors	Board of Directors	
	Held	Attended
Mr A Middleton	13	13
Mr A Hamilton	6	6
Mr P Malone	1	1
Mr S Apedaile	6	6
Mr G Long	5	3
Mr D Van Drasek	5	4
Mr G Keys	5	5
Mr M Nacson	5	4
Mr P Jermyn	3	2

Previously, the Company was not of a size nor were its financial affairs of such complexity to justify separate Remuneration and Audit Committees of the Board of Directors, where matters that might properly be dealt with by such committees are considered at full Directors' meetings.

In the year the company appointed an Audit Committee, with the first Audit Committee meeting being held subsequent to the year end.

## REVIEW AND RESULTS OF OPERATIONS

The consolidated loss after tax for the year attributable to the members of Advanced Engine Components Limited was \$5,152,875 (2002: \$6,413,078).

## SEGMENT RESULTS

Primary Reporting - Business Segments	NGVS (Natural Gas Vehicle Systems)	High Performance Engine Products	Bullet Supercars	Unallocated	Consolidated
	\$	\$	\$	\$	\$
<b>30 June 2003</b>					
Total Revenue	4,176,453	50,142	372,597	-	4,599,192
Segment Result	(2,619,706)	(282,914)	(1,643,680)	(606,575)	(5,152,875)
<b>30 June 2002</b>					
Total Revenue	2,197,472	109,140	-	-	2,306,612
Segment Result	46,050	(960,603)	(2,615,542)	(2,882,983)	(6,413,078)

# Advanced Engine Components Limited

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## **PRINCIPAL ACTIVITIES**

The Company's principal activities in the course of the financial year were the continued development and commercialisation of advanced engine component technologies encompassing the Natural Gas Vehicle System (NGVS) and the Sprintex Supercharger. The Company further advanced its Performance Vehicle Division during the year with the continuation of the Bullet Supercar program, and development of the Ford 300+ Program.

## **REVIEW OF 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 to phase 4 of its programme with the Australian Greenhouse Office to install the Company's NGVS system on 25 Perth route buses, further development of the Bullet Roadster to ADR compliance, and further development and commencement of serial production.

## **DIVIDENDS**

No dividends have been declared or paid to shareholders at the date of this report.

## **STATE OF AFFAIRS**

The Company undertook two private placements of shares during the year. Details of the issues are set out in note 26 to the Accounts.

During the year, the Company extended its borrowings by a net amount of \$2.4 million from related parties. These funds were predominantly used for working capital in the Company's commercialisation program for the Irisbus contract. Further details are provided in the notes to the accounts.

The Company's shares continued to be suspended from trading on the ASX. The Company will assess the requirements for re-quotations of its shares subsequent to its 2003 Annual General Meeting.

## **EVENTS SUBSEQUENT TO BALANCE DATE**

On 4 July 2003, 698 Capital International Ltd (698 Capital) lodged an off market takeover bid pursuant to a cash offer and bidder's statement. The terms of the offer were 1 cent 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 it 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 Commonwealth Equity Ltd to extend its loan facility from \$2.1 million to \$2.6 million and the facility was immediately drawn down fully, with the repayment date extended to 20 June 2004. The repayment date of the fully drawn facility has been subsequently been extended to 30 June 2004.

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.

## **LIKELY DEVELOPMENTS**

Further information as to the likely developments in the operations of the Company and the expected results of these operations in future years has not been included in this report because the Directors believe that to include such information would be likely to result in unreasonable prejudice to the Company.

# Advanced Engine Components Limited

## DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

The Board members are responsible for making remuneration policies and packages applicable to the Board members and senior executives of the Company. The Board remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities, and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

Details of the nature and amount of each major element of the emoluments of each Director of the Company are:

Name	Salary/ Fees	Benefits	Superannuation	Total
<i>Executive Directors</i>				
Mr A Middleton	116,363	19,584	10,473	146,420
Mr A Hamilton	208,298	-	-	208,298
<i>Non-Executive Directors</i>				
Mr P Malone	5,000	-	-	5,000
Mr S Apedaile	12,308	-	-	12,308
Mr D Van Drasek	3,562	-	-	3,562
Mr M Nacson	3,562	-	-	3,562
Mr P Jermyn	1,712	-	-	1,712
Mr G Long	3,562	-	-	3,562
Mr G Keys	3,562	-	-	3,562

## OPTIONS

At the date of this report, there are no unissued ordinary shares of the Company under option. Prior to their expiry on 31 December 2002, unissued ordinary shares of the Company under option were:

Option	Number of Options	Exercise Price	Expiry date
Listed Options	55,975,115	\$0.33	31/12/2002

These options did not entitle the holder to participate in any share issue of the Company or any other body corporate. Although the options were issued with an exercise price of \$0.35, this was discounted following the Company's rights issue in 2001 (refer Note 26 to the Accounts) to \$0.33 (as announced to the ASX on 21/12/2001).

There are no amounts unpaid on the shares issued. The Company did not grant during or since the end of the year any options over ordinary shares to Directors or Officers.

# Advanced Engine Components Limited

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## **DIRECTORS' INTERESTS**

The relevant interest of each Director in the share capital of the Company as notified by the Directors to the Australian Stock Exchange in accordance with s205G(1) of the Corporations Act 2001, at the date of this report is as follows:

<b>Director</b>	<b>Fully Paid Ordinary Shares</b>
Mr A Middleton	827,500
Mr G Long	-
Mr G Keys	-
Dr C D Wu <sup>1</sup>	131,771,576
Mr A Wang <sup>2</sup>	131,771,576
Mr T Liu <sup>2</sup>	131,771,576
Mr W Lee <sup>2</sup>	131,771,576

<sup>1</sup> Dr C D Wu is associated with 698 Capital International Limited the Company's parent entity.

<sup>2</sup> Mr A Wang, Mr T Liu and Mr W Lee are all Directors of 698 Capital International Limited.

## **INDEMNIFICATION OF OFFICERS**

Every officer of the consolidated entity is indemnified out of the property of the consolidated entity against any liability incurred by him in his capacity as officer in defending any proceedings, whether civil or criminal, in which judgment is given in his favour or in which he is acquitted or in connection with any application in relation to any such proceedings in which relief is under the Law granted to him by the Court.

## **INSURANCE PREMIUM**

The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the Company's insurance contracts, as such disclosure is prohibited under the terms of the contract.

## **ENVIRONMENTAL REGULATIONS**

The consolidated entity's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. However, the Board believes that the consolidated entity has adequate systems in place for the management of its environmental requirements and is not aware of any breach of these environmental requirements as they apply to the consolidated entity.

Signed in accordance with a resolution of the Directors made pursuant to s298(2) of the Corporations Act 2001.

On behalf of the Directors



**A MIDDLETON**

**Director**

PERTH, WESTERN AUSTRALIA

Dated 16 October 2003

# Advanced Engine Components Limited

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## Directors' Declaration

In the opinion of the directors of Advanced Engine Components Limited ("the Company"):

- (a) the financial statements and notes, set out on pages 9 to 39, are in accordance with the Corporations Act 2001, including:
1. giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2003 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
  2. complying with Accounting Standards in Australia the Corporations Regulations 2001, and other mandatory professional reporting requirements; and
- (b) there are reasonable grounds to believe, for the reasons set out in Note 1 (a) to the Financial Statements that the Company will be able to pay its debts as and when they become due and payable.

Dated at Perth this 16th day of October 2003

Signed in accordance with a resolution of the directors

On behalf of the Directors



A Middleton  
Director

# Advanced Engine Components Limited

## Statements of Financial Performance for the Financial Year Ended 30 June 2003

	Note	AEC Group		AEC Entity	
		2003 \$	2002 \$	2003 \$	2002 \$
Sales revenue	2	4,448,313	2,271,342	4,448,313	2,271,342
Cost of goods sold		(2,888,470)	(1,147,390)	(2,888,470)	(1,147,390)
<b>Gross profit</b>		<b>1,559,843</b>	<b>1,123,952</b>	<b>1,559,843</b>	<b>1,123,952</b>
Other revenue from ordinary activities	2	150,879	35,270	150,879	35,270
Distribution expenses		(232,904)	(71,884)	(232,904)	(71,884)
Marketing expenses		(841,021)	(625,256)	(841,021)	(625,256)
Occupancy expenses		(343,156)	(96,841)	(343,156)	(96,841)
Corporate expenses		(684,722)	(1,171,325)	(684,722)	(1,171,325)
Administration expenses		(2,491,119)	(2,855,463)	(2,486,567)	(2,686,350)
Research and development expenses		(1,553,287)	(2,253,091)	(1,553,287)	(2,081,464)
Borrowing costs		(264,256)	(143,367)	(264,256)	(143,367)
Other expenses from ordinary activities		(453,132)	(355,073)	(453,132)	(520,710)
<b>Loss From Ordinary Activities Before Income Tax Expense</b>		<b>(5,152,875)</b>	<b>(6,413,078)</b>	<b>(5,148,323)</b>	<b>(6,237,975)</b>
Income tax expense relating to ordinary activities	4	-	-	-	-
<b>Net Loss</b>	31	<b>(5,152,875)</b>	<b>(6,413,078)</b>	<b>(5,148,323)</b>	<b>(6,237,975)</b>
<b>Loss Per Share</b>					
Basic	5	(\$0.032)	(\$0.051)		

# Advanced Engine Components Limited

## Statements of Financial Position as at 30 June 2003

	Note	AEC Group		AEC Entity	
		2003 \$	2002 \$	2003 \$	2002 \$
<b>Current Assets</b>					
Cash assets	10	768,532	8,475	767,461	7,978
Receivables	11	973,909	2,108,630	973,909	2,108,630
Inventories	12	581,049	625,099	581,049	625,099
Other assets	13	182,635	113,975	182,635	113,975
<b>Total Current Assets</b>		<b>2,506,125</b>	<b>2,856,179</b>	<b>2,505,054</b>	<b>2,855,682</b>
<b>Non-Current Assets</b>					
Other financial assets	14	-	1,059	12	12
Plant and equipment	15	542,241	1,111,664	542,241	1,107,597
Intangibles	16	-	-	-	-
<b>Total Non-Current Assets</b>		<b>542,241</b>	<b>1,112,723</b>	<b>542,253</b>	<b>1,107,609</b>
<b>Total Assets</b>		<b>3,048,366</b>	<b>3,968,902</b>	<b>3,047,307</b>	<b>3,963,291</b>
<b>Current Liabilities</b>					
Payables	17	3,037,954	2,508,886	3,037,954	2,508,886
Interest-bearing liabilities	18	760,690	3,549,412	760,690	3,549,412
Provisions	19	730,238	145,847	730,238	145,847
Other liabilities	20	603,030	807,093	603,030	807,093
<b>Total Current Liabilities</b>		<b>5,131,912</b>	<b>7,011,238</b>	<b>5,131,912</b>	<b>7,011,238</b>
<b>Non-Current Liabilities</b>					
Payables	21	3,322,056	-	3,322,056	-
Interest-bearing liabilities	22	2,495,531	525,235	2,495,531	525,235
Provisions	23	36,010	61,697	36,010	61,697
<b>Total Non-Current Liabilities</b>		<b>5,853,597</b>	<b>586,932</b>	<b>5,853,597</b>	<b>586,932</b>
<b>Total Liabilities</b>		<b>10,985,509</b>	<b>7,598,170</b>	<b>10,985,509</b>	<b>7,598,170</b>
<b>Net Liabilities</b>		<b>(7,937,143)</b>	<b>(3,629,268)</b>	<b>(7,938,202)</b>	<b>(3,634,879)</b>
<b>Equity</b>					
Contributed equity	26	25,809,199	24,964,199	25,809,199	24,964,199
Reserves	28	-	352,250	-	352,250
Accumulated losses	31	(33,746,342)	(28,945,717)	(33,747,401)	(28,951,328)
		(7,937,143)	(3,629,268)	(7,938,202)	(3,634,879)
<b>Total Deficiency of Equity</b>		<b>(7,937,143)</b>	<b>(3,629,268)</b>	<b>(7,938,202)</b>	<b>(3,634,879)</b>

See the accompanying notes to the financial statements.

# Advanced Engine Components Limited

## Statements of Cash Flows for the Financial Year Ended 30 June 2003

Note	AEC Group		AEC Entity	
	Inflows (Outflows)		Inflows (Outflows)	
	2003 \$	2002 \$	2003 \$	2002 \$
<b>Cash Flows From Operating Activities</b>				
	4,141,567	1,132,325	4,141,567	1,132,325
	806,897	392,759	806,897	392,759
	(6,359,212)	(5,718,435)	(6,359,786)	(5,718,329)
	3,359	1,655	3,359	1,655
	(78,949)	(61,839)	(78,949)	(61,839)
34(c)	<u>(1,486,338)</u>	<u>(4,253,535)</u>	<u>(1,486,912)</u>	<u>(4,253,429)</u>
<b>Cash Flows From Investing Activities</b>				
	(278,871)	(39,452)	(278,871)	(39,452)
	147,520	-	147,520	-
	-	(18,088)	-	(18,088)
	-	(69,638)	-	(69,638)
	<u>(131,351)</u>	<u>(127,178)</u>	<u>(131,351)</u>	<u>(127,178)</u>
<b>Cash Flows From Financing Activities</b>				
	-	1,125,014	-	1,125,014
	-	(160,476)	-	(160,476)
	894,000	3,233,880	894,000	3,233,880
	(400,000)		(400,000)	
	2,100,000	-	2,100,000	
	-	50,002	-	50,002
	<u>(216,254)</u>	<u>(198,767)</u>	<u>(216,254)</u>	<u>(198,767)</u>
	<u>2,377,746</u>	<u>4,049,653</u>	<u>2,377,746</u>	<u>4,049,653</u>
	760,057	(331,060)	759,483	(330,954)
	8,475	339,535	7,978	338,932
34(a)	<u>768,532</u>	<u>8,475</u>	<u>767,461</u>	<u>7,978</u>

See the accompanying notes to the financial statements.

# Advanced Engine Components Limited

## Notes to the Financial Statements for the Financial Year Ended 30 June 2003

### 1. Statement of Significant Accounting Policies

#### *Significant Accounting Policies*

Accounting policies are selected and applied in a manner, which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

#### *Basis of Preparation*

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001 and Accounting Standards, Urgent Issues Group Consensus Views, and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report has been prepared on the basis of historical cost and except where stated, does not take into account changing money values or fair valuations of non-current assets.

The accounting policies have been consistently applied by each entity in the consolidated entity, and except where there is a change in accounting policy, are consistent with those of the previous year.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

#### (a) *Going Concern*

The Company and consolidated entity incurred a loss for the year of \$5,148,323 (2002: \$6,237,975) and \$5,152,875 (2002: \$6,413,078) respectively. At 30 June 2003 the Company and consolidated entity had a deficiency in working capital of \$2,626,858 (2002: \$4,155,556) and \$2,625,787 (2002: \$4,155,059) respectively, and a deficiency in shareholders' funds of \$7,938,202 (2002: \$3,634,879) and \$7,937,143 (2002: \$3,629,268) respectively. Throughout the 2003 financial year, the Company was dependent on the continued financial support of New Tel Limited and then Lim Asia Arbitrage Fund Inc (LIM).

The Company received \$2.1 million in funding from Commonwealth Equity Ltd prior to the end of the financial year, and subsequently has increased the funding by an additional \$500,000. Repayment of the loan has been extended to 30 June 2004. The Company had also received \$600,000 in total funding from LIM prior to the end of the financial year. Repayment of the loan from LIM is required by 20 June 2004.

In August 2003, 698 Capital International Ltd (698 Capital) took control of the Group by way of takeover bid (see Note 38). As at 30 June 2003, the Company owed 698 Capital Asia Pacific Limited, a related company with 698 Capital, \$3,322,056 in loans. 698 Capital have resolved to provide financial support, in circumstances that will enable the Company to be able to meet its debts as and when they fall due, at least until 30 June 2004.

On the basis of this support, the Directors consider it appropriate that the financial report be prepared on a going concern basis.

#### (b) *Acquisition of Assets*

All assets acquired including plant and equipment and intangibles other than goodwill are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly associated with the acquisition. When equity instruments are issued as consideration, their market price at the date of acquisition is used as fair value, except where the notional price at which they could be placed in the market is a better indication of fair value.

Where settlement of any part of cash consideration is deferred, the amounts payable are recorded at their present value, discounted at the rate applicable to the company if a similar borrowing were obtained from an independent financier under comparable terms and conditions.

The costs of assets constructed or internally generated by the consolidated entity, other than goodwill, include the cost of materials and direct labour. Directly attributable overheads and other incidental costs are also capitalized to the asset.

Expenditure, including that on internally generated assets other than research and development costs, is only recognized as an asset when the entity controls future economic benefits as a result of the costs incurred, it is probable that those future economic benefits will eventuate, and the costs can be measured reliably. Costs attributable to feasibility and alternative approach assessments are expensed as incurred.

#### (c) *Revision of Accounting Estimates*

Revisions to accounting estimates are recognized prospectively in current and future periods only.

# Advanced Engine Components Limited

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## Notes to the Financial Statements for the Financial Year Ended 30 June 2003

### 1. Summary Of Accounting Policies (cont'd)

(d) *Capital Raising Costs*

Costs that are directly attributable to a capital raising are offset against the proceeds of that capital raising. If the capital raising is unsuccessful or when the costs of the issue exceed the proceeds of the raising, the costs of the raising are expensed to the profit and loss account to the extent they exceed the proceeds of the capital raising.

(e) *Employee Entitlements*

*Wages, Salaries and Annual Leave*

The provision for employee entitlements to wages, salaries and annual leave, represents the amount which the Consolidated Entity has a present obligation to pay resulting from employees' services provided up to the balance date. The provision has been calculated at nominal amounts based on current wage and salary rates and includes related on-costs.

*Long Service Leave*

The liability for employee entitlements to long service leave represents the present value of the estimated future cash outflows to be made by the employer resulting from employees' services provided up to the balance date.

Liabilities for employee entitlements which are not expected to be settled within twelve months are discounted using the rates attaching to national government securities at the balance date that most closely match the terms of maturity of the related liabilities.

*Superannuation Fund*

The Company and other controlled entities contribute to an employee defined contribution superannuation fund in accordance with the superannuation guarantee charge. Contributions are charged against income as they are made.

(f) *Foreign Exchange*

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change, except where they relate to the acquisition of qualifying assets (see Note 1(b)).

(g) *Goods and Services Tax*

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(h) *Goodwill*

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable net assets acquired, is amortised on a straight-line basis over 3 years.

# Advanced Engine Components Limited

## Notes to the Financial Statements for the Financial Year Ended 30 June 2003

### 1. Summary Of Accounting Policies (cont'd)

(i) *Intellectual Property Rights*

Intellectual property rights are stated at cost and are amortised over the shorter of the periods in which the related benefits are expected to be realised not exceeding 3 years or the life of the rights.

(j) *Inventories*

Inventories, which include finished goods, raw materials and stores, and work in progress, are carried at the lower of cost and net realisable value. Costs include direct materials, direct labour, other direct variable costs, and allocated production overheads necessary to bring inventories to their present location and condition, based on normal operating capacity of the production facilities.

*Manufacturing Activities*

Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location.

(k) *Investments*

Investments in controlled entities are recorded at the lower of cost and recoverable amount.

(l) *Leased Plant and Equipment*

Leases of plant and equipment under which the Company or its controlled entities assume substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases are capitalised. A lease asset and a liability equal to the present value of the minimum lease payments are recorded at the inception of the lease. Contingent rentals are written off as an expense of the accounting period in which they are incurred. Capitalised lease assets are amortised on a straight-line basis over the term of the relevant lease, or where it is likely the Consolidated Entity will obtain ownership of the asset, the life of the asset. Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are charged to the statements of financial performance.

Payments made under operating leases are charged against profits in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

(m) *Payables*

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 120 days.

(n) *Depreciation and Amortisation*

The depreciation and amortisation rates used for each class of assets are as follows:

Plant and equipment	7.5% - 30%
Lease plant and equipment	20%
Leasehold Improvements	10%
Goodwill	3 years
Intellectual Property Rights	3 years

Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use, on a straight line basis.

(o) *Principles of Consolidation*

The consolidated financial statements expressed in Australian dollars comprise the financial statements of the Company being the parent entity and its controlled entities ("the consolidated entity"). A list of controlled entities appears in Note 30. The consolidated financial statements include the results of each controlled entity from the date on which the Company obtains control and until such time as the Company ceases to control such entity. In preparing the consolidated financial statements, all intercompany balances and transactions and unrealised profits occurring within the Consolidated Entity are eliminated in full. Outside interests in the equity and results of the entities that are controlled by the Company are shown as a separate item in the consolidated accounts.

# Advanced Engine Components Limited

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## Notes to the Financial Statements for the Financial Year Ended 30 June 2003

### 1. Summary Of Accounting Policies (cont'd)

(p) *Receivables*

*Trade debtors*

The collectibility of debts is assessed at balance date and specific provision is made for any doubtful accounts. Trade debtors are normally settled within 120 days.

(q) *Recoverable Amount of Non-Current Assets valued on cost basis*

The carrying amounts of non-current assets valued on the cost basis, are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is expensed in the reporting period in which it occurs.

Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets.

In assessing recoverable amounts of non-current assets the relevant cash flows have not been discounted to their present value.

(r) *Research and Development Costs*

Research and development expenditure is expensed as incurred.

(s) *Revenue Recognition*

Revenues are recognised at fair value of the consideration received net of the amount of GST.

i. *Sale of Goods*

Revenue from the sale of goods (net of returns, discounts and allowances) is recognised when control of the goods passes to the customer.

ii. *Interest Income and Government Grants*

Interest income is recognised as it accrues. Government grants are recognised as income to the extent to which the contracted obligations of the Company in respect to the grant fund have been provided. To the extent to which Grant funds are received in advance and which remain unearned at balance date, these amounts are recorded as unearned income.

iii. *Asset Sales*

The gross proceeds of asset sales are included as revenue of the entity. The profit or loss on disposal of assets is brought to account at the date an unconditional contract of sale is signed.

(t) *Taxation*

The consolidated entity adopts the liability method of tax effect accounting. Income tax expense is calculated on operating loss adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the Statement of Financial Position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain.

# Advanced Engine Components Limited

## Notes to the Financial Statements for the Financial Year Ended 30 June 2003

	AEC Group		AEC Entity	
	2003 \$	2002 \$	2003 \$	2002 \$
<b>2. Revenue</b>				
<b>(a) Revenue from operating activities</b>				
Sales revenue:				
Sales of goods	4,228,250	1,580,751	4,228,250	1,580,751
Grant revenue from commercialisation contracts	220,063	690,591	220,063	690,591
	<u>4,448,313</u>	<u>2,271,342</u>	<u>4,448,313</u>	<u>2,271,342</u>
<i>Other revenues from ordinary activities</i>				
Interest revenue:				
Other entities	3,359	1,655	3,359	1,655
Net Foreign Exchange Gain	-	32,240	-	32,240
Other	-	1,375	-	1,375
	<u>3,359</u>	<u>35,270</u>	<u>3,359</u>	<u>35,270</u>
	<u>4,451,672</u>	<u>2,306,612</u>	<u>4,451,672</u>	<u>2,306,612</u>
<b>(b) Revenue from outside operating activities</b>				
Proceeds from the sale of assets:				
Plant and equipment	147,520	-	147,520	-
<b>Total revenue from ordinary activities</b>	<b><u>4,599,192</u></b>	<b><u>2,306,612</u></b>	<b><u>4,599,192</u></b>	<b><u>2,306,612</u></b>

# Advanced Engine Components Limited

## Notes to the Financial Statements for the Financial Year Ended 30 June 2003

	AEC Group		AEC Entity	
	2003 \$	2002 \$	2003 \$	2002 \$
<b>3. Loss from Ordinary Activities</b>				
(a) Borrowing Costs				
Interest:				
Director related entities	46,036	-	46,036	-
New Tel Limited	139,270	120,708	139,270	120,708
Other entities	78,950	22,659	78,950	22,659
	<u>264,256</u>	<u>143,367</u>	<u>264,256</u>	<u>143,367</u>
(b) Other disclosure items in respect of the loss from Ordinary Activities				
Net bad and doubtful debts arising from:				
New Tel Limited	400,000	-	400,000	-
Other entities	405,297	297,504	405,297	297,504
Amortisation of Intellectual property rights	-	642,279	-	470,652
Depreciation and Amortisation				
Depreciation of plant and equipment	190,135	174,208	186,067	170,839
Amortisation of Leased plant and equipment	192,614	181,406	192,614	181,406
Amortisation of Leasehold Improvements	12,414	8,358	12,414	8,358
Amortisation of Goodwill	-	422,615	-	256,977
Management fees to Parent Entity	174,984	656,565	174,984	656,565
Foreign exchange loss	35,674	-	35,674	-
Net transfers to provisions:				
Revaluation decrement on inventory	158,275	50,000	158,275	50,000
Diminution of Investments:	-	-	-	165,638
Revaluation decrement on plant & equipment	341,307	-	341,307	-
Provisions for warranties	479,000	-	479,000	-
Employee entitlements	79,704	44,557	79,704	44,557
Operating lease rental expenses				
Minimum lease payments	229,490	110,833	229,490	110,833
Sales of assets in the ordinary course of business have given rise to the following profits and losses:				
<b>Net Profits</b>				
On sale of plant and equipment	<u>35,695</u>	<u>-</u>	<u>35,695</u>	<u>-</u>

# Advanced Engine Components Limited

## Notes to the Financial Statements for the Financial Year Ended 30 June 2003

	AEC Group		AEC Entity	
	2003 \$	2002 \$	2003 \$	2002 \$
<b>4. Income Tax</b>				
<b>(a) Income Tax Expense</b>				
Prima facie income tax (benefit) calculated at 30% on operating loss	(1,545,862)	(1,923,923)	(1,544,497)	(1,871,393)
Increase in income tax expense due to:				
Amortisation of goodwill	-	126,785	-	77,093
Interest of structured finance deposit	-	23,379	-	23,379
Interest on research and development deposit	-	109,141	-	109,141
Diminution of investments	-	-	-	49,692
patents non deductible	24,185	-	24,185	-
Amortisation of intellectual property rights	-	192,684	-	141,196
other permanent differences	4,523	111,611	4,523	111,611
Tax losses of the Company and controlled entities not carried forward as future income tax benefits	920,019	1,360,323	918,653	1,359,281
Timing differences not brought to account as future income tax benefits	597,135	-	597,136	-
Income tax expense/(benefit) attributable to operating loss	-	-	-	-
<b>(b) Future Income Tax Benefit calculated at 30%</b>				
Provisions	562,322	166,516	562,322	166,516
Accruals	187,621	86,131	187,621	86,131
Plant & Equipment	26,444	-	26,444	-
Leases	110,312	5,426	110,312	5,426
Patents deductible in future	52,500	-	52,500	-
Legal costs deductible in future	89,537	-	89,537	-
Offset of Provision for Deferred Tax	(2,654)	(50,687)	(2,654)	(50,687)
Future Income Tax Benefit not brought to account	(1,026,082)	(207,386)	(1,026,082)	(207,386)
	-	-	-	-

# Advanced Engine Components Limited

## Notes to the Financial Statements for the Financial Year Ended 30 June 2003

	AEC Group		AEC Entity	
	2003 \$	2002 \$	2003 \$	2002 \$
<b>4. Income Tax cont'd</b>				
<b>(c) Provision for Deferred Tax calculated at 30%</b>				
Prepayments	2,654	5,308	2,654	5,308
Unrealised foreign exchange gains	-	12,554	-	12,554
Depreciation	-	32,825	-	32,825
Offset of Future Income Tax Benefit	(2,654)	(50,687)	(2,654)	(50,687)
	-	-	-	-
<b>(d) Potential future income tax benefits calculated at 30% not brought to account as assets:</b>				
Tax losses	-	-	-	-
Timing differences	1,026,082	207,386	1,026,082	207,386
	1,026,082	207,386	1,026,082	207,386

The potential future income tax benefit arising from tax losses at 30 June 2003 and timing differences has not been recognised as an asset because recovery of these is not virtually certain and recovery of timing differences is not assured beyond a reasonable doubt. At 30 June 2003, if the Company meets the conditions for deductibility imposed by Division 165 of the Income Tax Assessment Act (1997), gross unutilized tax losses of \$10 million (2002: \$7.0 million) (consolidated entity: \$10 million (2002: \$7.0 million)) may be available for future utilization.

The potential future income tax benefit will only be obtained if:

- assessable income is derived of a nature and of amount sufficient to enable the benefit from the deductions to be realised or the benefit can be utilised by the Company and/or the consolidated entity in accordance with Division 170 of the Income Tax Assessment Act 1997;
- conditions for deductibility imposed by the law are complied with; and
- no changes in tax legislation adversely affect the realisation of the benefit from the deductions.

### Tax Consolidation

For the purposes of income taxation, Advance Engine Components have not elected to form a tax consolidated group. It is not expected the group will elect to form a consolidated tax group as there does not appear to be any benefit in doing so. There will be no consequences to the deferred tax assets, deferred tax liability unutilized tax losses by not joining the consolidated tax regime.

# Advanced Engine Components Limited

## Notes to the Financial Statements for the Financial Year Ended 30 June 2003

### 5. Loss Per Share

	AEC Group	
	2003 \$	2002 \$
Basic loss per share	(\$0.032)	(\$0.051)

There are no dilutive potential ordinary shares, therefore dilutive loss per share has not been calculated or disclosed.

	2003 No.	2002 No.
The weighted average number of ordinary shares on issue during the financial year used in the calculation of basic loss per share	162,006,420	125,171,128

#### RECONCILIATION OF LOSS USED IN THE CALCULATION OF LOSS PER SHARE

	2003	2002
	\$	\$
Net Loss	(5,152,875)	(6,413,078)
Operating loss used in the calculation of basic loss per share	(5,152,875)	(6,413,078)

# Advanced Engine Components Limited

## Notes to the Financial Statements for the Financial Year Ended 30 June 2003

### 6. Directors' Remuneration

The directors of Advanced Engine Components Limited during the year were:

- A Middleton
- A Hamilton
- P Malone
- A Apedaite
- D Van Drasek
- M Nacson
- P Jermyn
- G Long
- G Keys

The total income paid or payable, or otherwise made available, to all directors of the company and controlled entities, by the company or by any related party

AEC Group		AEC Entity	
2003	2002	2003	2002
\$	\$	\$	\$
387,986	183,950	387,986	183,950
		<b>2003</b>	<b>2002</b>
		<b>No.</b>	<b>No.</b>

The number of directors of the company whose income from the Company or any related party falls within each successive \$10,000 band of income:

\$0	-	\$9,999	6	2
\$10,000	-	\$19,999	1	-
\$30,000	-	\$39,999	-	1
\$140,000	-	\$149,999	1	1
\$210,000	-	\$219,999	1	-

### 7. Executives' Remuneration

Aggregate remuneration in respect of the financial year, received or due and receivable from the Company, entities in the consolidated entity, or related parties by executive officers of the company and of controlled entities whose income is \$100,000 or more

157,949	147,069	157,949	147,069
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The number of Australian based executive officers of the Company and of controlled entities whose remuneration from the Company or related parties and from entities in the consolidated entity falls within each successive \$10,000 band of income:

	2003	2002	2003	2002
	No.	No.	No.	No.
\$140,000 - \$149,999	-	1	-	1
\$150,000 - \$159,999	1	-	1	-

# Advanced Engine Components Limited

## Notes to the Financial Statements for the Financial Year Ended 30 June 2003

### 8. Employee Share Option Plan

The plan allows for the issue of a number of options which shall not exceed the number equivalent to 5% of the total number of ordinary shares on issue in the capital of the Company from time to time. The options are exercisable at the greater of 120% of the weighted average price of shares trading on the ASX, calculated over five business days prior to being granted and \$0.35 each, expiring 5.00pm on 31 December of the year three (3) years from the year of issue. Options issued under this plan are not transferable.

The Consolidated Entity's Employee share option plan expired at 5.00pm on 31 December 2002. Under the plan, no options had been issued to employees, or were exercisable at the time of expiry.

	AEC Group		AEC Entity	
	2003 \$	2002 \$	2003 \$	2002 \$
<b>9. Remuneration of Auditors</b>				
<b>(a) Auditors of the Company – Horwath</b>				
Audit and review of the financial report	19,000	-	19,000	-
Other assurance services	-	-	-	-
	<u>19,000</u>	<u>-</u>	<u>19,000</u>	<u>-</u>
<b>(a) Auditors of the Company – KPMG</b>				
Audit and review of the financial report	8,258	185,000	8,258	185,000
Other assurance services	-	19,607	-	19,607
	<u>8,258</u>	<u>204,607</u>	<u>8,258</u>	<u>204,607</u>
<b>10. Cash</b>				
Cash on deposit	765,973	6,975	765,961	6,478
Other deposits	2,559	1,500	1,500	1,500
	<u>768,532</u>	<u>8,475</u>	<u>767,461</u>	<u>7,978</u>
<b>11. Current Receivables</b>				
Trade receivables	1,647,777	2,386,976	1,647,777	2,386,976
Provision for doubtful debts	(679,397)	(297,504)	(679,397)	(297,504)
	<u>968,380</u>	<u>2,089,472</u>	<u>968,380</u>	<u>2,089,472</u>
GST recoverable	5,529	19,158	5,529	19,158
New Tel Limited (Note 33(c))	400,000	-	400,000	-
Provision for doubtful debts	(400,000)	-	(400,000)	-
	<u>973,909</u>	<u>2,108,630</u>	<u>973,909</u>	<u>2,108,630</u>
<b>12. Current Inventories</b>				
Raw materials and stocks – at cost	437,913	529,517	437,913	529,517
Work in progress – at cost	211,411	145,582	211,411	145,582
Finished goods – at cost	140,000	-	140,000	-
	<u>789,324</u>	<u>675,099</u>	<u>789,324</u>	<u>675,099</u>
Provision for Net realizable value of inventory	(208,275)	(50,000)	(208,275)	(50,000)
	<u>581,049</u>	<u>625,099</u>	<u>581,049</u>	<u>625,099</u>

# Advanced Engine Components Limited

## Notes to the Financial Statements for the Financial Year Ended 30 June 2003

	AEC Group		AEC Entity	
	2003 \$	2002 \$	2003 \$	2002 \$
<b>13. Other Assets – Current</b>				
Prepayments	182,635	113,975	182,635	113,975
<b>14. Other Financial Assets – Non-Current</b>				
Term Deposit	-	1,059	-	-
Long-term loans to controlled entities	-	-	181,932	181,932
Less: Provision for non-recovery	-	-	(181,932)	(181,932)
	-	-	-	-
Investment in controlled entities	-	-	3,105,296	3,105,296
Less: Provision for diminution	-	-	(3,105,284)	(3,105,284)
	-	1,059	12	12

### 15. Plant and Equipment – Consolidated

	Plant and Equipment \$	Leased Plant and Equipment \$	Leasehold Improvements \$	TOTAL \$
<b>Gross Carrying Amount</b>				
Balance at 30 June 2002	2,306,774	916,784	85,299	3,308,857
Additions	116,593	-	162,280	278,873
Disposals	(24,068)	(146,381)	-	(170,449)
Transfers	-	37,843	-	37,843
Balance at 30 June 2003	2,399,299	808,246	247,579	3,455,124
<b>Accumulated Depreciation/Amortisation</b>				
Balance at 30 June 2002	(1,969,025)	(216,750)	(11,418)	(2,197,193)
Disposals	21,765	36,859	-	58,624
Transfers	-	(37,843)	-	(37,843)
Revaluation decrement	(22,624)	(282,021)	(36,662)	(341,307)
Depreciation expense	(190,136)	(192,614)	(12,414)	(395,163)
Balance at 30 June 2003	(2,160,020)	(692,369)	(60,494)	(2,912,883)
<b>Net Book Value</b>				
As at 30 June 2002	337,749	700,034	73,881	1,111,664
As at 30 June 2003	239,279	115,877	187,085	542,241

# Advanced Engine Components Limited

## Notes to the Financial Statements for the Financial Year Ended 30 June 2003

### 15. Plant and Equipment – Company

	Plant and Equipment	Leased Plant and Equipment	Leasehold Improvements	TOTAL
	\$	\$	\$	\$
<b>Gross Carrying Amount</b>				
Balance at 30 June 2002	2,097,242	916,784	85,299	3,099,326
Additions	116,591	-	162,280	278,871
Disposals	(24,068)	(146,381)	-	(170,449)
Transfers	-	37,843	-	37,843
Balance at 30 June 2003	2,189,765	808,246	247,579	3,245,590
<b>Accumulated Depreciation/Amortisation</b>				
Balance at 30 June 2002	(1,763,560)	(216,750)	(11,418)	(1,991,728)
Disposals	21,765	36,859	-	58,624
Transfers	-	(37,843)	-	(37,843)
Revaluation decrement	(22,624)	(282,021)	(36,662)	(341,307)
Depreciation expense	(186,067)	(192,614)	(12,414)	(391,095)
Balance at 30 June 2003	(1,950,486)	(692,369)	(60,464)	(2,703,349)
<b>Net Book Value</b>				
As at 30 June 2002	333,680	700,034	73,881	1,107,597
As at 30 June 2003	239,279	115,877	187,085	542,241

	AEC Group		AEC Entity	
	2003	2002	2003	2002
	\$	\$	\$	\$
Goodwill	435,378	435,378	269,740	269,740
Accumulated Amortisation	(435,378)	(435,378)	(269,740)	(269,740)
	-	-	-	-
Intellectual Property Rights – at cost	3,921,057	3,921,057	1,149,643	1,149,643
Accumulated amortisation	(3,921,057)	(3,921,057)	(1,149,643)	(1,149,643)
	-	-	-	-
	-	-	-	-

### 16. Intangibles

# Advanced Engine Components Limited

## Notes to the Financial Statements for the Financial Year Ended 30 June 2003

	AEC Group		AEC Entity	
	2003 \$	2002 \$	2003 \$	2002 \$
<b>17. Current Payables</b>				
Trade creditors	2,171,866	1,681,679	2,171,866	1,681,679
Trade creditors – director related entities	-	3,452	-	3,452
Other creditors and accruals	866,090	823,755	866,090	823,755
	<u>3,037,956</u>	<u>2,508,886</u>	<u>3,037,956</u>	<u>2,508,886</u>
<b>18. Current Interest-Bearing Liabilities</b>				
<i>Unsecured:</i>				
Loan from New Tel Limited (note 33 (c))	-	3,348,209	-	3,348,209
Loan from Lim Asia Arbitrage Inc. (note 33 (c))	601,677	-	601,677	-
<i>Secured:</i>				
Lease liabilities (i) (note 29 (b))	159,013	201,203	159,013	201,203
	<u>760,690</u>	<u>3,549,412</u>	<u>760,690</u>	<u>3,549,412</u>
<i>(i) Secured over the individual assets leased.</i>				
<b>19. Current Provisions</b>				
Employee entitlements (note 24)	251,238	145,847	251,238	145,847
Warranty provision	479,000	-	479,000	-
	<u>730,238</u>	<u>145,847</u>	<u>730,238</u>	<u>145,847</u>
<b>20. Other Current Liabilities</b>				
Unearned Income – Government Grants	603,030	807,093	603,030	807,093
	<u>603,030</u>	<u>807,093</u>	<u>603,030</u>	<u>807,093</u>
<b>21. Non Current Payables</b>				
Loan from 698 Capital Asia Pacific Limited – unsecured	3,322,056	-	3,322,056	-
	<u>3,322,056</u>	<u>-</u>	<u>3,322,056</u>	<u>-</u>

698 Capital Asia Pacific Limited has given an undertaking not to demand repayment of this loan until 30 June 2004. This loan is unsecured and interest free.

# Advanced Engine Components Limited

## Notes to the Financial Statements for the Financial Year Ended 30 June 2003

	AEC Group		AEC Entity	
	2003	2002	2003	2002
	\$	\$	\$	\$
<b>22. Non-Current Interest-Bearing Liabilities</b>				
<b>Secured:</b>				
Loan facility (i) (note 33 (d))	2,144,360	-	2,144,360	-
Lease liabilities (ii) (note 29(b))	351,171	525,235	351,171	525,235
	<u>2,495,531</u>	<u>525,235</u>	<u>2,495,531</u>	<u>525,235</u>

(i) Secured by a fixed and floating charge over the assets of the Company.

(ii) Secured over the individual assets leased.

### 23. Non-Current Provisions

Employee entitlements (note 24)	36,010	61,697	36,010	61,697
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### 24. Employee Entitlements

The aggregate employee entitlement liability recognized and included in the financial statements is as follows:

Provision for employee entitlements:

Current (note 19)	251,238	145,847	251,238	145,847
Non-current (note 23)	36,010	61,697	36,010	61,697
	<u>287,248</u>	<u>207,544</u>	<u>287,248</u>	<u>207,544</u>

The present value of employee entitlements not expected to be settled within twelve months of balance date have been calculated using the following weighted averages:

	2003 No.	2002 No.	2003 No.	2002 No.
Number of employees at end of financial year	<u>37</u>	<u>33</u>	<u>37</u>	<u>33</u>

# Advanced Engine Components Limited

## Notes to the Financial Statements for the Financial Year Ended 30 June 2003

	<u>AEC Group</u>		<u>AEC Entity</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>25. Non-Hedged Foreign Currency Balances</b>				
The Australian dollar equivalent of foreign currency balances included in the financial statements which are not effectively hedged are as follows:				
<b>US Dollars</b>				
Payables - Current	<u>(111,429)</u>	<u>(121,541)</u>	<u>(111,429)</u>	<u>(121,541)</u>
<b>Canadian Dollars</b>				
Payables - Current	<u>(8,969)</u>	<u>(49,130)</u>	<u>(8,969)</u>	<u>(49,130)</u>
<b>Euro</b>				
Receivables - Current	1,252,768	1,075,631	1,252,768	1,075,631
Payables - Current	<u>(37,670)</u>	<u>(45,000)</u>	<u>(37,670)</u>	<u>(45,000)</u>
<b>Swiss Francs</b>				
Payables - Current	<u>(42,280)</u>	<u>(102,658)</u>	<u>(42,280)</u>	<u>(102,658)</u>

# Advanced Engine Components Limited

## Notes to the Financial Statements for the Financial Year Ended 30 June 2003

	AEC Group		AEC Entity	
	2003 \$	2002 \$	2003 \$	2002 \$
<b>26. Contributed Equity</b>				
169,342,036 fully paid ordinary shares (2002: 151,842,036)	25,809,199	24,964,199	25,809,199	24,964,199
<i>Movement in ordinary shares</i>				
Balance at the beginning of year	24,964,199	22,391,251	24,964,199	22,391,251
Shares issued				
▪ Issue of 330,000 ordinary shares @ \$0.177 in consideration of intellectual property in Ford 300+ Program	-	58,410	-	58,410
▪ Issue of 49,280,535 ordinary shares @ \$0.05 pursuant to a rights offering to existing shareholders	-	2,464,027	-	2,464,027
▪ Issue of 4,000,000 ordinary shares @ \$0.05 pursuant to a placement completed January 2002	-	200,000	-	200,000
▪ Issue of 31,392 ordinary shares @ \$0.35 from the exercise of listed options	-	10,987	-	10,987
▪ Issue of 10,000,000 ordinary shares @ \$0.05 in consideration on settlement of intercompany borrowings	500,000	-	500,000	-
▪ Issue of 7,500,000 ordinary shares @ \$0.046 in consideration on settlement of dispute with consultant	345,000	-	345,000	-
Share issue costs	-	(160,476)	-	(160,476)
Balance at end of year	25,809,199	24,964,199	25,809,199	24,964,199

### *Terms and conditions*

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders meetings.

In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors, and are fully entitled to any proceeds of liquidation.

### **27. Options on issue**

Opening balance	55,975,115	56,006,507	55,975,115	56,006,507
Less: Exercised during the year	-	(31,392)	-	(31,392)
Less: Expired during the year	(55,975,115)	-	(55,975,115)	-
Closing balance	-	55,975,115	-	55,975,115

On 31 December 2002 all issued options of the Company that had not been exercised by that date expired. The revised exercise price following the Company's rights issue in September 2001 was \$0.33. The last traded price for the shares prior to suspension of the stock on 25 October 2002 with the ASX was \$0.042.

# Advanced Engine Components Limited

## Notes to the Financial Statements for the Financial Year Ended 30 June 2003

### 28. Reserves

	AEC Group		AEC Entity	
	2003 \$	2002 \$	2003 \$	2002 \$
Option reserve				
Opening balance	352,250	352,250	352,250	352,250
Less: Reserve transferred to accumulated losses on option expiry	(352,250)	-	(352,250)	-
	<u>-</u>	<u>352,250</u>	<u>-</u>	<u>352,250</u>

#### Option Reserve

Where options are used as part of consideration for acquisitions or are issued at other than nil consideration the value of the options are recognised by the Company in the option reserve.

### 29. Commitments For Expenditure

#### (a) Contractual Commitments

##### - Retainers to Consultants

Not later than 1 year	36,958	186,750	36,958	186,750
Later than 1 year and not later than 5 years	-	380,250	-	380,250
	<u>36,958</u>	<u>567,000</u>	<u>36,958</u>	<u>567,000</u>

#### (b) Finance Leases

##### Leasing arrangements

The Consolidated Entity leases plant and equipment under finance leases expiring from 1 to 5 years. At the end of the lease term the Consolidated Entity has the option to purchase the plant and equipment at a price deemed to be a bargain purchase option.

##### Finance lease liabilities

No later than 1 year	186,649	244,350	186,649	244,350
Later than 1 year and not later than 5 years	380,054	584,411	380,054	584,411
Minimum finance lease payments	566,703	828,761	566,703	828,761
Less future finance charges	(56,519)	(102,323)	(56,519)	(102,323)
Finance lease liabilities	<u>510,184</u>	<u>726,438</u>	<u>510,184</u>	<u>726,438</u>
Included in the financial statements as:				
Current interest bearing liabilities (note 18)	159,013	201,203	159,013	201,203
Non-current interest bearing liabilities (note 22)	351,171	525,235	351,171	525,235
	<u>510,184</u>	<u>726,438</u>	<u>510,184</u>	<u>726,438</u>

##### Operating leases

Not later than 1 year	108,000	176,667	108,000	176,667
Later than 1 year and not later than 5 years	936,000	-	936,000	-
	<u>1,044,000</u>	<u>176,667</u>	<u>1,044,000</u>	<u>176,667</u>

The consolidated entity leases property and equipment under non-cancellable operating leases expiring within the next ten years. Leases generally provide the consolidated entity with a right of renewal at which time all terms are re-negotiated.

# Advanced Engine Components Limited

## Notes to the Financial Statements for the Financial Year Ended 30 June 2003

### 30. Controlled Entities

#### (a) Particulars in relation to Controlled Entities

Name of Entity	Country of Incorporation	Ownership Interest	
		2003 %	2002 %
<b>Parent Entity</b>			
Advanced Engine Components Limited	Australia		
<b>Controlled Entities</b>			
Sprintex Australasia Pty Ltd	Australia	100	100
Transcom NGVS Research Pty Ltd	Australia	100	100
AEC Vehicle Technology Pty Ltd (formerly Orix Vehicle Technology Pty Ltd)	Australia	100	100
NGVS (No.1) Pty Ltd	Australia	100	100
NGVS (No.2) Pty Ltd	Australia	100	100
NGVS (No.3) Pty Ltd	Australia	100	100
NGVS (No.4) Pty Ltd	Australia	100	100
NGVS (No.5) Pty Ltd	Australia	100	100
NGVS (No.6) Pty Ltd	Australia	100	100
NGVS (No.7) Pty Ltd	Australia	100	100
NGVS (No.8) Pty Ltd	Australia	100	100
NGVS (No.9) Pty Ltd	Australia	100	100
NGVS (No.10) Pty Ltd	Australia	100	100
NGVS (No.11) Pty Ltd	Australia	100	100
NGVS (No.12) Pty Ltd	Australia	100	100
NGVS (No.13) Pty Ltd	Australia	100	100
NGVS (No.14) Pty Ltd	Australia	100	100
NGVS (No.15) Pty Ltd	Australia	100	100
NGVS (No.16) Pty Ltd	Australia	100	100
NGVS (No.17) Pty Ltd	Australia	100	100
NGVS (No.18) Pty Ltd	Australia	100	100
NGVS (No.19) Pty Ltd	Australia	100	100

### 31. Accumulated Losses

	AEC Group		AEC Entity	
	2003 \$	2002 \$	2003 \$	2002 \$
Accumulated losses at the beginning of the year	(28,945,717)	(22,532,639)	(28,951,328)	(22,713,353)
Operating loss after income tax	(5,152,875)	(6,413,078)	(5,148,323)	(6,237,975)
Transfer from Option Reserve on expiration	352,250	-	352,250	-
Accumulated losses at the end of the year	(33,746,342)	(28,945,717)	(33,747,401)	(28,951,328)

# Advanced Engine Components Limited

## Notes to the Financial Statements for the Financial Year Ended 30 June 2003

### 32. Segment Reporting

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise of interest bearing loans, borrowings and expenses.

Business Segments.

The consolidated entity comprises the following main business segments:

The Natural Gas Vehicle Systems (NGVS) segment operated in the public transport area of the industry. Predominantly, NGVS is responsible for the Company's contracts to supply its patented Natural Gas combustion technology. The Division's operations are based at the Company's Head Office in Malaga, Western Australia.

The High Performance Engine Products segment (Sprintex and the AEC 300+ development program) operated in the passenger car area of the industry. This segment is responsible for the research and development and commercialisation of the Company's patented twin-screw Sprintex Supercharger, and exploiting the opportunities presented by the Company's Electronic Control Unit (ECU) which the Company originally developed for the NGVS Technology. Sprintex's operations are primarily based at the Company's Head Office in Malaga, Western Australia.

The Bullet Supercars segment (Bullet) operates in the retail of Sports Cars category of the passenger car industry. The segment is responsible for the production, sale and aftermarket service of the Company's Bullet Roadster vehicle. The segment was predominantly in preparation phase during the year, whilst the ADR program was being conducted. Bullet's operations are based at Yatala in Queensland.

Geographical Segments – The geographical segments of the Consolidated Entity are Australia and France.

Primary Reporting - Business Segments	NGVS (Natural Gas Vehicle Systems)		High Performance Engine Products		Bullet Supercars		Unallocated		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Revenue</b>										
Total Revenue	4,176,453	2,197,472	50,142	109,140	372,597	-	-	-	4,599,192	2,306,612
<b>Result</b>										
Segment Result	(2,619,706)	46,050	(282,914)	(960,603)	(1,643,680)	(2,615,542)	(606,575)	(2,882,983)	(5,152,875)	(6,413,078)
Depreciation of Fixed Assets and Amortisation of Leased Assets	164,553	32,545	23,974	167,403	206,636	164,024	-	-	395,163	363,972
Amortisation of Intangibles	-	205,459	-	316,957	-	542,478	-	-	-	1,064,894

# Advanced Engine Components Limited

## Notes to the Financial Statements for the Financial Year Ended 30 June 2003

### 32. Segment Reporting cont'd

Primary Reporting - Business Segments	NGVS (Natural Gas Vehicle Systems)		High Performance Engine Products		Bullet Supercars		Unallocated		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Other non-cash items:</b>										
Amounts set aside to provisions										
Doubtful debts	400,000	159,751	-	137,753	-	-	400,000	-	800,000	297,504
Employee Entitlements	58,144	(15,081)	3,157	4,131	18,403	55,507	-	-	79,704	44,557
Revaluation decrement on plant & equipment	-	-	-	-	341,307	-	-	-	341,307	-
Provision for warranties	479,000	-	-	-	-	-	-	-	479,000	-
Inventory diminution	-	-	2,909	-	155,366	50,000	-	-	158,275	50,000
<b>Assets</b>										
Segment Assets	2,312,340	2,419,007	56,356	369,328	679,670	1,180,567	-	-	3,048,366	3,968,902
<b>Liabilities</b>										
Segment Liabilities	(2,958,883)	(3,523,523)	(70,849)	(194,471)	(943,450)	(531,967)	(7,012,327)	(3,348,209)	(10,985,509)	(7,598,170)
Acquisition of Non-Current Assets	278,873	18,885	-	-	-	699,800	-	-	278,873	718,685
<b>Secondary Reporting – Geographical Segments</b>										
	France		Australia		Consolidated					
	2003	2002	2003	2002	2003	2002				
Segment Revenue by location of customers	3,604,894	1,354,428	994,298	952,184	4,599,192	2,306,612				
Segment Assets by location of assets	852,768	1,070,469	2,195,598	2,898,279	3,048,366	3,968,748				
Acquisition of Non-Current Assets	-	-	278,873	718,685	278,873	718,685				

# Advanced Engine Components Limited

## Notes to the Financial Statements for the Financial Year Ended 30 June 2003

### 33. Related Party Disclosures

#### (a) Directors' Remuneration

The names of each person holding the position of Director during the year are as follows:

- Mr A Middleton (appointed 1997)
- Mr A Hamilton (resigned 16 December 2002)
- Mr P Malone (resigned 16 December 2002)
- Mr S Apedaile (appointed January 2003 & resigned 9 May 2003)
- Mr D Van Drasek (appointed 9 May 2003 & resigned 7 August 2003)
- Mr G Long (appointed 9 May 2003)
- Mr G Keys (appointed 9 May 2003)
- Mr Nacson (appointed 9 May 2003 & resigned 7 August 2003)
- Mr P Jermyn (appointed 9 May 2003 & resigned 4 June 2003)

Details of directors' remuneration is disclosed in note 6 to the financial statements.

Fully Paid	
2003	2002
No.	No.

#### (b) Directors' holdings of shares and share options

The interests of Directors of the consolidated entity and their director-related entities in shares and share options of entities within the consolidated entity of year end are set out below:

Ordinary Shares (1)	827,500	1,099,670
Options over ordinary shares (2)	-	10,350,731

(1) At 30 June 2002, New Tel Limited, a director-related entity held 109,000,000 shares, and 20,000,000 options over ordinary shares in the Company. These shares and options are not included in the above.

(2) At year end Lim Asia Arbitrage Inc, a director-related entity held 109,000,000 (2002: -) shares. These shares were sold to 698 Capital International Ltd subsequent to year end.

#### Directors Transactions in shares and share options

During the year Director related persons purchased 113,500 shares on market prior to the Company going into its voluntary trading suspension.

During the year New Tel Limited (in liquidation) the Company's former parent sold 109,000,000 shares in the Company to LIM Asia Arbitrage Inc ("LIM"). Shortly after this purchase LIM appointed its representatives to the board and became a director related entity.

# Advanced Engine Components Limited

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## Notes to the Financial Statements for the Financial Year Ended 30 June 2003

### **(c) Transactions involving the parent entities**

On 10 December 2002, the Company's parent entity, New Tel Limited (New Tel), was placed in administration, and subsequently placed in liquidation on 17 January 2003. During the current and prior financial years, New Tel provided certain services to the Company under the terms of a management services agreement, dated 9 November 1999, and charged the Company \$174,984 (2002: \$656,565) with respect to these services. The management services agreement expired on 9 November 2002 and was not renewed. In addition, New Tel charged the Company for telecommunications services of \$30,067 (2002: \$21,289) and interest of \$139,270 (2002: \$120,708) with respect to intercompany borrowings.

During the year New Tel advanced the Company \$294,000 in loans. New Tel also paid \$163,027 in costs on behalf of the Company. In October 2002, New Tel Limited recalled \$400,000 of its loans to the Company.

During the year LIM Asia Arbitrage Inc (LIM) took possession of the intercompany loan from New Tel. Later in the year this loan was sold to 698 Capital Asia Pacific Limited.

During the year LIM also advanced the Company \$600,000 and charges interest on this advance at an interest rate of 8.41%. At year end LIM was due \$601,676.

### **(d) Transactions of directors and directors-related entities**

In the prior year, Mr Antony Middleton purchased maintenance services from the Company. Mr Middleton paid \$3,069 in total for these transactions, which were charged at normal commercial rates.

Mr Middleton is a director and shareholder of WA Pharmacy Management Pty Ltd, which provides a motor vehicle leased to the company at normal commercial rates. During the year 30 June 2003, WA Pharmacy Management was paid \$13,800 (2002: \$21,122). During the prior year, Mr Middleton entered into arrangements to purchase a Bullet Roadster V8 from the Company on normal commercial terms. Further to the sale transaction, Mr Middleton has leased back the vehicle on a month to month basis to the Company for the purposes of assistance in its ADR compliance program. Mr Middleton receives \$1,150 per month in respect of this agreement.

During the year Mr Hamilton purchased a Bullet Roadster V8SS from the Company on normal commercial terms. Further to the sale transaction, Mr Hamilton leased back the vehicle on a month to month basis to the Company for the purposes of marketing and customer evaluation. Until his resignation as director, Mr Hamilton had received \$4,541 in respect of this agreement.

During the year Commonwealth Equity Ltd (CEL) advanced the Company \$2,100,000 and charges interest on this advance at an interest rate of 8.41%. This loan was secured by way of fixed and floating charge over the assets of the Company. At year end CEL was due \$2,144,360. CEL is a related entity.

During the year the Company entered into a number of transactions with LIM Asia Arbitrage Fund Inc (LIM). Mr Long is a director of LIM. Details of the transactions are set out in Note 33 (c) of the financial statements.

Mr Wang, Mr Liu and Mr Lee are directors of 698 Capital International Limited and 698 Capital Asia Pacific Limited. Details of transaction with these entities are set out elsewhere in the notes of the financial statements.

### **(e) Transactions Within the Wholly-Owned Group**

There were no transactions within the wholly-owned group during the year. All loans from the parent company to wholly-owned entities were fully provided for non-recovery in prior years (see Note 14).

# Advanced Engine Components Limited

## Notes to the Financial Statements for the Financial Year Ended 30 June 2003

	AEC Group		AEC Entity	
	2003	2002	2003	2002
	\$	\$	\$	\$
<b>34. Notes To The Statement Of Cash Flows</b>				
<b>(a) Reconciliation of Cash</b>				
For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the Statement of Financial Position as follows:				
Cash (Note 10)	765,973	6,975	765,961	6,478
Deposit (Note 10)	2,559	1,500	1,500	1,500
	<u>768,532</u>	<u>8,475</u>	<u>767,461</u>	<u>7,978</u>

### **(b) Non-Cash Financing and Investing Activities**

The Consolidated Entity acquired plant and equipment with an aggregate fair value of nil (2002: \$718,685) by means of finance leases.

During the year, the Company issued 10,000,000 shares in satisfaction of its intercompany borrowings of \$500,000 from New Tel Limited. Later in the year, 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.

The above transactions are not reflected in the Statement of Cash Flows.

# Advanced Engine Components Limited

## Notes to the Financial Statements for the Financial Year Ended 30 June 2003

### Notes To The Statement Of Cash Flows (cont.)

	AEC Group		AEC Entity	
	2003 \$	2002 \$	2003 \$	2002 \$
<b>(c) Reconciliation of Loss From Ordinary Activities After Income Tax to Net Cash Flows used in Operating Activities</b>				
Loss from ordinary activities after income tax	(5,152,875)	(6,413,078)	(5,148,323)	(6,237,975)
(Less) items classified as investing activities:				
(Profit)/loss on sale of non-current assets	(35,695)	-	(35,695)	-
Add non-cash items				
Depreciation and amortisation of non-current assets	395,163	1,428,866	391,095	1,088,125
Doubtful debts provision	800,000	-	800,000	-
Diminution in inventory	158,275	-	158,275	-
Diminution in plant and equipment	341,307	-	341,307	-
Unrealised foreign exchange (gain)/loss	35,674	(42,298)	35,674	(42,298)
Amounts set aside for provisions	558,704	392,061	558,704	557,699
Net Cash (used in) operating activities before changes in net assets and liabilities	(2,899,447)	(4,634,449)	(2,898,963)	(4,634,449)
Changes in net assets and liabilities:				
(Increase)/decrease in assets:				
Current receivables	699,047	(1,111,053)	699,047	(1,111,053)
Current inventories	(114,225)	(202,188)	(114,225)	(202,188)
Other current assets	(68,660)	(51,712)	(68,660)	(51,712)
Other financial assets	1,059	-	-	-
Increase/(decrease) in liabilities:				
Current payables	623,135	497,592	623,135	497,698
Current interest bearing liabilities	526,523	-	526,524	-
Other current liabilities	(298,130)	1,248,275	(298,130)	1,248,275
Non-current interest bearing liabilities	44,360	-	44,360	-
Net cash (used in) operating activities	(1,486,338)	(4,253,535)	(1,486,912)	(4,253,429)

# Advanced Engine Components Limited

## Notes to the Financial Statements for the Financial Year Ended 30 June 2003

### 35. Financial Instruments

#### (a) Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

#### (b) Interest Rate Risk

The following table details the consolidated entity's exposure to interest rate risk as at the 30 June 2003:

2003	Fixed Interest Rate Maturity						Total \$
	Average Interest Rate %	Variable Interest Rate \$	Less than 1 Year \$	1 to 5 Years \$	More than 5 Years \$	Non-Interest Bearing \$	
<b>Financial Assets</b>							
Cash	3.4%	765,973	-	-	-	2,559	768,532
Receivables	-	-	-	-	-	973,909	973,909
		765,973	-	-	-	976,468	1,742,441
<b>Financial Liabilities</b>							
Payables - current	-	-	-	-	-	3,037,956	3,037,956
Payables - non current	-	-	-	-	-	3,322,056	3,322,056
Loan facilities	8.41%	601,676	2,144,360	-	-	-	2,746,036
Finance lease liabilities	9.55%	-	159,013	351,171	-	-	510,184
		601,676	2,303,373	351,171	-	6,360,012	9,616,232

The following table details the economic entity's exposure to interest rate risk as at the 30 June 2002:

2002	Fixed Interest Rate Maturity						Average Interest Rate %
	Average Interest Rate %	Variable Interest Rate \$	Less than 1 Year \$	1 to 5 Years \$	More than 5 Years \$	Non-Interest Bearing \$	
<b>Financial Assets</b>							
Cash	1.71%	6,975	-	-	-	1,500	8,475
Receivables	-	-	-	-	-	2,108,630	2,108,630
Investments and deposits	0.1%	1,059	-	-	-	-	1,059
		8,034	-	-	-	2,110,130	2,118,164
<b>Financial Liabilities</b>							
Payables	-	-	-	-	-	(2,508,886)	(2,508,886)
Loan from NTL	10.00%	(3,348,209)	-	-	-	-	(3,348,209)
Finance lease liabilities	9.55%	-	(201,203)	(525,235)	-	-	(726,438)
		(3,409,906)	(201,203)	(525,235)	-	(1,949,995)	(6,583,533)

#### (c) Foreign Exchange Risk

The consolidated entity does not currently enter into forward exchange rate contracts to hedge purchase or sale commitments. The directors are of the view that its IRISBUS contract is yet to establish a trend from which to hedge. The consolidated entity continually reviews its foreign exchange risk and minimises its exposure by sourcing non-core components in the same currency.

# Advanced Engine Components Limited

## Independent audit report to the members of Advanced Engine Components Limited

### Financial Instruments (cont'd)

(d) *Credit Risk*

Credit risk refers to the risk that a counter-party will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has adopted the policy of only dealing with creditworthy counter-parties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. The consolidated entity measures credit risk on a fair value basis.

The credit risk on financial assets, excluding investments, of the consolidated entity which have been recognized on the statement of financial position, is the carrying amount, net of any provision for doubtful debts. As at 30 June 2003, 98% (2002: 96%) of the consolidated entity's trade debtors were owed by two customers in the NGVS business segment. These debtors comprise of a large multinational vehicle manufacturer, and a Federal Government authority, and therefore the credit risk associated with these parties is considered to be minimal.

(e) *Net Fair Value*

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their respective net fair values, determined in accordance with the accounting policies disclosed in note 1 to the financial statements.

### 36. Economic Dependency

59% of the Company's forecast sales revenue over the next twelve months is expected to be derived from its contract for the supply of NGVS kits to Irisbus.

### 37. Contingencies

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.

# Advanced Engine Components Limited

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## Independent audit report to the members of Advanced Engine Components Limited

### **38. Subsequent Events**

On 4 July 2003, 698 Capital International Limited (698 Capital) lodged an off market takeover bid pursuant to a cash offer and bidder's statement. The terms of the offer were 1 cent 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 it 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 Commonwealth Equity Ltd to extend its loan facility from \$2.1 million to \$2.6 million and the facility was immediately drawn down fully. Subsequently, the repayment date of the full facility has been extended to 30 June 2004.

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 its core business.

## **Independent audit report to members of Advanced Engine Components Limited**

### **Scope**

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

The financial report comprises the statement of financial performance, statement of financial position, statement of cash flows, and accompanying notes to the financial statements for both Advanced Engine Components Limited (the company) and the consolidated entity and the directors' declaration for the year ended 30 June 2003. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report 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.

#### ***Audit approach***

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

### **Independence**

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.



### **Audit opinion**

In our opinion, the financial report of Advanced Engine Components Limited is in accordance with:

(a) the Corporations Act 2001, including:

- (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2003 and of their performance for the year ended on that date; and
- (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

### **Inherent uncertainty regarding continuation as a going concern**

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

Dated the 17<sup>th</sup> day of October 2003.

**HORWATH PERTH**  
*Chartered Accountants*

HORWATH PERTH

A handwritten signature in black ink, appearing to read "Glyn O'Brien".

**GLYN O'BRIEN**  
Partner

# Advanced Engine Components Limited

## Additional Stock Exchange Information as at 3 October 2003

### Number of Holders of Equity Securities

#### Ordinary Share Capital

- 169,342,036 shares are held by 890 individual holders.

#### Options

- No options are currently on issue.

### Distribution of Holders of Equity Securities

			Fully Paid Ordinary Shares		
			Holdings	Total Units	%
1	-	1,000	190	114,586	0.07
1,001	-	5,000	166	443,175	0.26
5,001	-	10,000	160	1,281,897	0.76
10,001	-	100,000	319	9,699,601	5.73
100,001 and over			55	157,802,777	93.18
Totals			890	169,342,036	100.00
Holdings less than a marketable parcel					

### Substantial Shareholders

	Fully Paid	
Ordinary Shareholders	Number	Percentage
698 Capital International Ltd	131,771,576	77.81

# Advanced Engine Components Limited

## Additional Stock Exchange Information

as at 3 October 2003

### Twenty Largest Holders of Quoted Equity Securities

Ordinary Shareholders	Fully Paid	
	Number	Percentage
1 698 Capital International Ltd	131,771,576	77.81
2 Westpac Custodian Nominees Ltd	3,131,000	1.85
3 Merrill Lynch (Australia) Nominees Ltd	2,569,369	1.52
4 Kasset Pty Ltd	2,516,066	1.49
5 Kasset Pty Ltd	2,400,000	1.42
6 Mrs Illeen Peovitis	1,674,000	0.99
7 Pastol Investments Limited	1,592,791	0.94
8 Zegna Corporation Global Ltd	1,500,728	0.89
9 Mr Vivekananthan s/o M V Natham	1,250,000	0.74
10 Mr Raymond Lee Ming Wan	517,800	0.31
11 Foxrock Capital Management Ltd	500,000	0.30
12 WSF Pty Ltd (Alan D Hill S/F A/C)	446,384	0.26
13 Border Panel Works Pty Ltd	330,000	0.19
14 Mr Darren Cruickshank	307,400	0.18
15 Totally West Pty Ltd	305,000	0.18
16 Aztec Trading Services Ltd	300,000	0.18
17 Patrick M Collins	300,000	0.18
18 Mrs Francine Middleton	276,000	0.16
19 Mr Adrian Eng Cheong Khoo	250,000	0.15
20 Arico (Australia) Pty Ltd	249,657	0.15
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	152,187,771	89.87

# Advanced Engine Components Limited

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## Additional Stock Exchange Information

as at 3 October 2003

### **Corporate Governance Statement**

The Directors are responsible for the corporate governance practices of the consolidated entity. This statement sets out the main corporate governance practices that were in operation throughout the financial year, except where otherwise indicated.

### **The Board of Directors**

The Board carries out its responsibilities according to the following mandate:

- The Board should comprise at least three Directors;
- The Board should be made up of at least one-third of Non-executive Directors;
- The Chairman of the Board should be a Director;
- The Directors should possess a broad range of skills, qualifications, and experience;
- The Board should meet on a monthly basis; and
- All available information in connection with the items to be discussed at a meeting of the Board shall be provided to each Director prior to that meeting.

On the day on which the Directors' Report is made out, the Board consisted of one Non-executive Director and two Executive Directors. Details of the Directors are set out in the Directors' Report.

The primary responsibilities of the Board include:

- Approval of the annual and half-yearly financial report;
- The establishment of the long term goals of the consolidated entity and strategic plans to achieve those goals;
- The review and adoption of annual budgets for the financial performance of the consolidated entity and monitoring the results on a quarterly basis; and
- Ensuring that the consolidated entity has implemented adequate systems of internal controls together with appropriate monitoring of compliance activities.

### **Independent Professional Advice**

With the prior approval of the Chairman, each Director has the right to seek independent legal and other professional advice at the consolidated entity's expense concerning any aspect of the consolidated entity's operations or undertakings in order to fulfil their duties and responsibilities as Directors.

# Advanced Engine Components Limited

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## Additional Stock Exchange Information

as at 3 October 2003

### *Corporate Governance Statement cont'd*

#### **Committees**

The new Board considers the issues of the consolidated entity as sufficiently complex to require a separate committee. The consolidated entity has now established an Audit Committee with its first two meetings occurring after year end, to approve the attached financial statements.

The consolidated entity had not established a Nomination, Remuneration as the Board considers the consolidated entity is not significantly large enough to warrant a committee.

The Board reviews the remuneration policies applicable to all Directors and Executive Officers on an annual basis. Remuneration packages, which consist of base salary, fringe benefits, superannuation, and entitlements upon retirement or termination, are reviewed with due regard to performance and other relevant factors. In order to retain and attract executives of sufficient calibre to facilitate the efficient and effective management of the consolidated entity's operations, the Board seeks the advice of external advisors in connection with the structure of remuneration packages.

#### **Risk Management**

The Board is responsible for the consolidated entity's system of internal controls. The Board constantly monitors the operational and financial aspects of the consolidated entity's activities, and considers the recommendations and advice of its external auditors, legal counsel and other skill specific consultants on the operational and financial risks that face the consolidated entity.

The Board ensures that recommendations made by its auditors and other advisors are investigated and, where considered necessary, appropriate action is taken to ensure that the consolidated entity has an appropriate internal control environment in place to manage the key risks identified.

#### **ASX Corporate Governance Council Guidelines**

The Company intends to incorporate the guidelines of the ASX Corporate Governance Council into its corporate governance structure, prior to their implementation on the 1<sup>st</sup> of July 2004.

# Advanced Engine Components Limited

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## Additional Stock Exchange Information

as at 3 October 2003

### **Company Secretary**

Ms Nerida Schmidt

### **Registered Office**

12 Energy Street  
MALAGA WA  
Australia 6090

### **Share Registry**

Computershare Investor Services Pty Limited  
Level 2, 45 St Georges Terrace  
PERTH WA 6000

### **Stock Exchange Listings**

The Australian Stock Exchange Limited quotes Advanced Engine Components Limited's ordinary shares.

