



ADVANCED ENGINE COMPONENTS LIMITED

ACN 009 081 770

NOTICE OF MEETING AND EXPLANATORY STATEMENT TO SHAREHOLDERS

**NOTICE IS ENCLOSED FOR A
GENERAL MEETING OF SHAREHOLDERS
TO BE HELD ON
WEDNESDAY, 8 SEPTEMBER 2004
AT ADVANCED ENGINE COMPONENTS LIMITED,
14 ENERGY STREET, MALAGA WA 6090
AT 10.30AM**

IMPORTANT INFORMATION

**This is an important document that should be read in its entirety.
If you do not understand it, or any part of it,
you should consult with your professional advisers without delay.**

**You are encouraged to attend the meeting, but if you cannot, you are requested to complete
and return the enclosed Proxy Form without delay to
Advanced Engine Components Limited at PO Box 3126, Malaga WA 6090
or by facsimile on facsimile number (+61 8) 9209 6999.**

NOTICE OF A GENERAL MEETING
ADVANCED ENGINE COMPONENTS LIMITED
ACN 009 081 770

Notice is hereby given that a general meeting of the members of Advanced Engine Components Limited ("AEC" or "the Company") will be held on the date and at the location and time specified below:

DATE: Wednesday, 8 September 2004
LOCATION: Advanced Engine Components Limited, 14 Energy Street, Malaga WA 6090
TIME: 10.30am

Words and phrases used in the Resolutions are defined in the accompanying Explanatory Statement and these words and phrases have the same meaning in this Notice of Meeting as defined in the Explanatory Statement.

BUSINESS

The business to be transacted at the General Meeting is the proposal of Resolutions 1 to 12 as set out below.

RESOLUTION 1: Consolidation of Capital

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That subject to all other Resolutions included in this Notice of General Meeting being passed and pursuant to section 254H of the Corporations Act and for all other purposes, approval be and is hereby given to the consolidation of the Existing Shares in the Company on a 1 for 10 basis, with a Record Date being the 5 business days from the date of the meeting at which this Resolution is passed, and with the resulting shares being called Shares in the Company provided that, if an Existing Shareholder holds a number of Existing Shares which is not evenly divisible by 10, the number of replacement Shares credited to that Existing Shareholder will be rounded up to the nearest whole number."

RESOLUTION 2: Reduction of Existing Capital of the Company

To propose and, if thought fit, to pass the following resolution as a special resolution:

"That subject to all other Resolutions included in this Notice of General Meeting being passed and pursuant to sections 256C and 258F of the Corporations Act and for all other purposes, approval be and is hereby given to the capital of the Company being altered by reducing it by an amount of approximately \$25.8 million being a proportion of the accumulated losses of the Company against the share capital which is considered to be permanently lost."

RESOLUTION 3: Placement of Ordinary Shares and Options

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That subject to all other Resolutions included in this Notice of General Meeting being passed and pursuant to ASX Listing Rule 7.1 and for all other purposes, that approval be and is hereby given, to the issue of 2.25 million Shares in the Company at an issue price of \$0.10 per Share to raise \$225,000 and 1.125 million free attaching Options over Shares in the Company, exercisable at \$0.20 each on or before 30 June 2008, to the parties detailed in Annexure A to the Explanatory Statement accompanying this Notice of Meeting. This issue of Shares and Options will occur no later than 3 months, or such later date to the extent permitted by an ASX waiver of the Listing Rules, from the date of the General Meeting."

RESOLUTION 4: Placement of Ordinary Shares and Options to Mr. Antony Middleton, Director

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That subject to all other Resolutions included in this Notice of General Meeting being passed and pursuant to section 208 of the Corporations Act and ASX Listing Rule 10.11 and for all other purposes, that approval be and is hereby given, to issue 1.0 million Shares in the Company at an issue price of \$0.10 per Share on conversion of \$100,000 of Mr. Antony Middleton’s existing loan to the Company totaling approximately \$150,000 and 500,000 free attaching Options over Shares in the Company, exercisable at \$0.20 each on or before 30 June 2008, to Mr. Antony Middleton or his nominees. This issue of Shares and Options will occur no later than 1 month, or such later date to the extent permitted by an ASX waiver of the Listing Rules, from the date of the General Meeting.”

RESOLUTION 5: Placement of Shares to Mr. Graham Keys, Director

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That subject to all other Resolutions included in this Notice of General Meeting being passed and pursuant to section 208 of the Corporations Act and ASX Listing Rule 10.11 and for all other purposes, that approval be and is hereby given, to issue 500,000 Shares in the Company at an issue price of \$0.10 per Share to raise \$50,000 and 250,000 free attaching Options over Shares in the Company, exercisable at \$0.20 each on or before 30 June 2008, to Mr. Graham Keys or his nominees. This issue of Shares and Options will occur no later than 1 month, or such later date to the extent permitted by an ASX waiver of the Listing Rules, from the date of the General Meeting.”

RESOLUTION 6: Further Placement of Shares and Options

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That subject to all other Resolutions included in this Notice of General Meeting being passed and pursuant to ASX Listing Rule 7.1 and for all other purposes, that approval be and is hereby given, to the issue of up to 6.25 million Shares in the Company at an issue price of \$0.10 per Share to raise \$625,000 and 2.5 million free attaching Options over Shares in the Company, exercisable at \$0.20 each on or before 30 June 2008 to Additional Investors as defined in the Explanatory Statement accompanying the Notice convening this meeting. This issue of Shares will occur no later than 3 months, or such later date to the extent permitted by an ASX waiver of the Listing Rules, from the date of the General Meeting.”

RESOLUTION 7: Conversion of LIM Loan to Equity

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That subject to all other Resolutions included in this Notice of General Meeting being passed and pursuant to section 208 of the Corporations Act and ASX Listing Rule 10.11 and for all other purposes, that approval be and is hereby given to issue up to 6.5 million Shares in the Company at an issue price of \$0.10 per Share to LIM on conversion of their existing loan of approximately \$650,000. This issue of Shares in the Company will occur no later than 1 month, or such later date to the extent permitted by an ASX waiver of the Listing Rules, from the date of the General Meeting.”

RESOLUTION 8: Conversion of 698 Capital Asia Pacific Secured Loan to Equity

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That subject to all other Resolutions included in this Notice of General Meeting being passed and pursuant to section 208 of the Corporations Act and ASX Listing Rule 10.11 and for all other purposes, that approval be and is hereby given to issue up to 15.0 million Shares in the Company at an issue price of \$0.10 per Share to 698 Capital Asia Pacific on conversion of a portion of their existing secured loan to the Company of approximately \$4.7 million. This issue of Shares in the Company will occur no later than 1 month, or such later date to the extent permitted by an ASX waiver of the Listing Rules, from the date of the General Meeting.”

RESOLUTION 9: Conversion of 698 Capital Asia Pacific Unsecured Loan to Equity

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That subject to all other Resolutions included in this Notice of General Meeting being passed and pursuant to section 208 of the Corporations Act and ASX Listing Rule 10.11 and for all other purposes, that approval be and is hereby given to issue up to 16.6 million Shares in the Company at an issue price of \$0.20 per Share to 698 Capital Asia Pacific on conversion of their existing unsecured loan to the Company of approximately \$3.3 million. This issue of Shares in the Company will occur no later than 1 month, or such later date to the extent permitted by an ASX waiver of the Listing Rules, from the date of the General Meeting.”

RESOLUTION 10: Prospectus Issue

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That subject to all other Resolutions included in this Notice of General Meeting being passed and pursuant to ASX Listing Rule 7.1 and for all other purposes, that approval be and is hereby given, to issue up to 17.5 million fully paid Ordinary Shares in the Company at an issue price of \$0.20 per Share, under a prospectus to raise \$3.5 million. This Prospectus Issue will include a priority entitlement to Shareholders of at least 10% of the offer or in a way that, in ASX’s opinion, is fair in all the circumstances. The Company will limit the number of Shares it issues to a Shareholder to the higher of 5% of all Shares being offered under the priority entitlement and the number the Shareholder would be entitled to under a pro rata issue of all those Shares. This issue of Shares will occur no later than 3 months, or such later date to the extent permitted by an ASX waiver of the Listing Rules, from the date of the General Meeting.”

RESOLUTION 11: Issue of Shares to 698 Capital Asia Pacific

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That subject to all other Resolutions included in this Notice of General Meeting being passed and pursuant to section 208 of the Corporations Act and ASX Listing Rule 10.11 and for all other purposes, that approval be and is hereby given, to issue up to 5.0 million Shares in the Company through the proposed Prospectus Issue at an issue price of \$0.20 per Share to raise \$1.0 million to 698 Capital Asia Pacific or its nominees through a proposed shortfall underwriting agreement of the Prospectus Issue. This issue of Shares will occur no later than 1 month, or such later date to the extent permitted by an ASX waiver of the Listing Rules, from the date of the General Meeting.”

RESOLUTION 12: Issue of Options to Norvest Corporate Pty Ltd

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That subject to all other Resolutions included in this Notice of General Meeting being passed and pursuant to section 208 of the Corporations Act and ASX Listing Rule 10.11 and for all other purposes, that approval be and is hereby given, to issue up to 1.25 million free Options over Shares in the Company, exercisable at \$0.20 each on or before 30 June 2008, to Norvest Corporate Pty Ltd as part payment for corporate advisory services. This issue of Options will occur no later than 1 month, or such later date to the extent permitted by an ASX waiver of the Listing Rules, from the date of the General Meeting.”

VOTING EXCLUSION STATEMENT

The following voting exclusion statement applies to the Resolutions under the ASX Listing Rules or where applicable, the provisions of the Corporations Act to the following persons ("Excluded Persons"). The Company will disregard any votes on the various resolutions cast by the following Excluded Persons:

Resolution No	Title	Excluded Persons
Resolution 3	Placement of Ordinary Shares and Options	A person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a security holder, if the resolution is passed and any Associate of any of those entities or persons.
Resolution 4	Placement of Ordinary Shares and Options to Mr. A. Middleton	Mr. A. Middleton and any Associate of Mr. A. Middleton and any person or entity who might obtain a benefit, except a benefit solely in the capacity of a security holder, if the Resolution is passed and any Associate of any of those entities or persons.
Resolution 5	Placement of Ordinary Shares and Options to Mr. G. Keys	Mr. G. Keys and any Associate of Mr. G. Keys and any person or entity who might obtain a benefit, except a benefit solely in the capacity of a security holder, if the Resolution is passed and any Associate of any of those entities or persons.
Resolution 6	Further Placement of Shares and Options	A person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a security holder, if the resolution is passed and any Associate of any of those entities or persons.
Resolution 7	Conversion of LIM Loan to Equity	LIM and any Associate of LIM and any person or entity who might obtain a benefit, except a benefit solely in the capacity of a security holder, if the Resolution is passed and any Associate of any of those entities or persons.
Resolution 8	Conversion of 698 Capital Asia Pacific Secured Loan to Equity	698 Capital Asia Pacific and any Associate of 698 Capital Asia Pacific and any person or entity who might obtain a benefit, except a benefit solely in the capacity of a security holder, if the Resolution is passed and any Associate of any of those entities or persons.
Resolution 9	Conversion of 698 Capital Asia Pacific Unsecured Loan to Equity	698 Capital Asia Pacific and any Associate of 698 Capital Asia Pacific and any person or entity who might obtain a benefit, except a benefit solely in the capacity of a security holder, if the Resolution is passed and any Associate of any of those entities or persons.
Resolution 11	Issue of Shares to 698 Capital Asia Pacific	698 Capital Asia Pacific and any Associate of 698 Capital Asia Pacific and any person or entity who might obtain a benefit, except a benefit solely in the capacity of a security holder, if the Resolution is passed and any Associate of any of those entities or persons.
Resolution 12	Issue of Options to Norvest Corporate Pty Ltd	Norvest Corporate Pty Ltd and any Associate of Norvest Corporate Pty Ltd and any person or entity who might obtain a benefit, except a benefit solely in the capacity of a security holder, if the Resolution is passed and any Associate of any of those entities or persons.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- it is cast by the person chairing the General Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Other Resolutions

There are no relevant voting restrictions imposed on any of the other Resolutions.

PROXIES

In accordance with section 249L of the Corporations Act, Shareholders are advised that:

- each Shareholder has the right to appoint a proxy;
- the proxy need not be a Shareholder of the Company; and
- a Shareholder who is entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise.

To vote by proxy, please complete and sign the Proxy Form enclosed with this Notice of General Meeting as soon as possible and either:

- send the Proxy Form by facsimile to the Company on +61 8 9209 6999;
- post the Proxy Form to the Company at PO Box 3126, Malaga WA 6090; or
- deliver the Proxy Form to the registered office of the Company at 14 Energy Street, Malaga WA 6090.

Proxy Forms must be received by the Company not later than 48 hours before the time specified for the commencement of the General Meeting.

Dated this 30 July 2004

By order of the Board



ANTONY MIDDLETON
MANAGING DIRECTOR

If you wish to discuss any aspects of this document with the Company, contact the Managing Director, Mr. Antony Middleton on telephone +61 8 9209 6900.



EXPLANATORY STATEMENT TO SHAREHOLDERS
ADVANCED ENGINE COMPONENTS LIMITED
ACN 009 081 770

1. ACTION TO BE TAKEN BY SHAREHOLDERS

This Explanatory Statement sets out information about the proposed restructuring and recapitalisation of AEC and detailed information on the Resolutions to be considered by the Shareholders at the General Meeting. Defined terms used in this Statement are set out in Section 6. The General Meeting has been convened for the purpose of passing the Resolutions in compliance with the requirements of the ASX Listing Rules and the Corporations Act. Accompanying this Statement is the Notice of Meeting convening the General Meeting and a Proxy Form.

Shareholders are encouraged to attend and vote on each of the Resolutions to be put to the General Meeting. If a Shareholder is not able to attend and vote at the General Meeting, the Shareholder may complete the Proxy Form and return it to the registered office of the Company at the address which appears on the Notice of Meeting not later than 48 hours before the time specified for the commencement of the General Meeting.

In considering the Resolutions, Shareholders must take into consideration the current financial circumstances of the Company.

If the Resolutions are passed and the proposed restructuring set out in Section 3 below are completed, the Company is likely to be in a position to seek re-instatement of its securities to official Quotation on ASX. The timing of re-instatement, if at all, will be dependent on the Directors' discretion and subject to compliance with ASX and Corporations Act regulatory requirements. If Shareholders reject the proposed recapitalisation and restructuring, the Company will remain suspended from official Quotation on ASX in the short term.

The Resolutions are therefore important and affect the future of your Company. You are urged to give careful consideration to the Notice and the contents of this Explanatory Statement.

2. THE COMPANY

2.1 Background

AEC was founded in 1984 and has been engaged in research, development and commercialisation of electronic fuel injection and engine management technologies since that time.

During the first 15 years of incorporation, AEC was engaged in research and development of the Natural Gas Vehicle System ("NGVS"). Commercialisation of the research results commenced at the end of 1999 when Irisbus appointed AEC as the exclusive supplier of the Compressed Natural Gas ("CNG") conversion kits. Significant revenues have been generated since then. The Company also diversified through the acquisition of Sprintex Supercharger and Bullet Supercar. These unprofitable divisions of the business have contributed in the Company generating large losses over the last few years.

At the end of 2002, the Company's then parent company, Newtel Limited ("Newtel"), was placed under administration and the majority control of AEC was transferred to a secured creditor of Newtel. Part of the Shares held by that secured creditor were sold to 698 Capital International in mid 2003. 698 Capital International is a Hong Kong based private venture capital company. In August 2003, 698 Capital International became the majority shareholder of the Company after the completion of an off market bid to all Shareholders of AEC.

Subsequently, the Company's Board of Directors and senior management were restructured and the Board now comprises Dr. C. Daniel Wu as Chairman, and Messrs. Antony Middleton, George Long, Graham Keys, Arthur Wang, Thomas Liu and William Lee. AEC appointed Ms. Nerida Schmidt as Company Secretary and Mr. Anthony Hardwick as Chief Financial Officer.

Since June 2003, the Board has closed the Bullet Supercar and Sprintex Supercharger divisions to streamline operations and focus solely on the core business of the patented AEC NGVS electronic fuel injection and engine control system. Furthermore, the Company has continued to strengthen strategic alliances and relationships with Asian contacts and associates. The Board has also tightened financial management of the Company and has concentrated on positioning AEC for potential NGVS opportunities throughout Australia, Asia and Europe.

In January 2004, the Board of Directors resolved to restructure and recapitalise the Company. In April 2004, the Company dispatched a Notice of Meeting of Shareholders to be held on 20 May 2004. This meeting was cancelled on 17 May 2004 as the Board resolved to reconsider the terms of the restructure of the Company. The final terms of the recapitalisation and restructure proposal for the Company are detailed in Section 3 below.

2.2 Operational Update

In November 2003, the Company signed a Co-operation Agreement with the research and development arm of a Chinese vehicle and engine manufacturer, China First Auto Works Group Company ("First Auto Works"). The agreement provides that the entities work together to design, develop, test and certify a natural gas engine, converting an existing base diesel engine by incorporating AEC's NGVS technology. First Auto Works was established in 1953 and employs over 120,000 personnel. They are one of the world's largest truck producers and China's largest vehicle manufacturer. First Auto Works is situated in Changchun, Jilin Province, China.

In May 2004, the Company announced that the first phase of the Co-operation Agreement namely the collaborative design of the base engine to suit operation on natural gas had been completed successfully and the engine had been delivered by First Auto Works to the AEC design laboratory in Perth.

The second phase is progressing with the installation of the engine on the Company's engine dynamometre in AEC's design laboratory in Perth in June 2004. A further two engines were delivered in July 2004.

In addition, AEC is currently in commercial and technical negotiations with one of the largest Chinese heavy duty engine manufacturers for a further natural gas engine development program. The manufacturer has been established for over 50 years and specialises in the manufacture of high-speed heavy duty diesel engines. The manufacturer has visited AEC's premises and two representatives of the Chinese engine manufacturer have visited France to view a sample of the 600 buses in operation. AEC are planning a further visit to China in the near future.

Production of natural gas engines in China is scheduled for 2005 and the Company believes there is immediately a large potential demand from the bus fleet operators in major Chinese cities such as Beijing and Shanghai who have already announced natural gas purchase programs to replace their diesel buses. As natural gas engines can also power trucks and other heavy duty vehicles, production can be expanded to meet this much larger potential market.

3. THE RECAPITALISATION AND RESTRUCTURE PROPOSAL

3.1 Principal Features of the Recapitalisation and Restructure Proposal

The principal features of the recapitalisation and restructure proposal are included below.

- (a) **Consolidation of Capital:** Consolidation of the Existing Shares of the Company on a 1 for 10 basis. (See Resolution 1 and Section 4.1).
- (b) **Reduction of Existing Capital of the Company:** The Capital of the Company be reduced by an amount of approximately \$25.8 million being a proportion of the accumulated losses of the Company. (See Resolution 2 and Section 4.2).
- (c) **Placement of Ordinary Shares and Options:** Issue of 2.25 million Shares in the Company at an issue price of \$0.10 per Share to raise \$225,000 and 1.125 million free attaching Options over Shares in the Company to the Mezzanine Investors detailed in Annexure A and 500,000 Shares in the Company at an issue price of \$0.10 per Share to raise \$50,000 and 250,000 free attaching Options over Shares in the Company to Mr. G. Keys or his nominees. In addition, 1.0 million Shares in the Company are to be issued at an issue price of \$0.10 per Share to Mr. A. Middleton or his nominees on conversion of a portion of Mr. A. Middleton's existing loan to the Company of approximately \$150,000. Mr. A. Middleton or his nominees will also receive 500,000 free attaching Options over Shares in the Company. (See Resolutions 3, 4 and 5 and Sections 4.3 and 4.4).

- (d) **Further Placement of Shares and Options:** A further issue of up to 6.25 million Shares in the Company at an issue price of \$0.10 per Share to raise \$625,000 and 2.5 million free attaching Options over Shares in the Company, exercisable at \$0.20 each on or before 30 June 2008 to Additional Investors. (See Resolution 6 and Section 4.5).
- (e) **Conversion of LIM's Loan to Equity:** The issue of up to 6.5 million Shares in the Company at a price of \$0.10 each to LIM on conversion of their existing loan to the Company of approximately \$650,000. (See Resolution 7 and Section 4.6).
- (f) **Conversion of 698 Capital Asia Pacific's Secured Loan to Equity:** The issue up to 15.0 million Shares in the Company at a price of \$0.10 each to 698 Capital Asia Pacific on conversion of a portion, being \$1.5 million, of 698 Capital Asia Pacific's existing secured loan to the Company which currently totals approximately \$4.7 million. (See Resolution 8 and Section 4.7).
- (g) **Conversion of 698 Capital Asia Pacific's Unsecured Loan to Equity:** The issue up to 16.6 million Shares in the Company at a price of \$0.20 each to 698 Capital Asia Pacific on conversion of their existing unsecured loan of approximately \$3.3 million. (See Resolution 9 and Section 4.8).
- (h) **Prospectus Issue:** The issue of up to 17.5 million fully paid Ordinary Shares in the Company at \$0.20 per share to raise \$3.5 million through a prospectus issue ("the Prospectus Issue"). (See Resolution 10 and Section 4.9). 698 Capital Asia Pacific will underwrite up to 5.0 million fully paid Ordinary Shares in the Company at \$0.20 per share to raise \$1 million should there be a shortfall on the Prospectus Issue. (See Resolution 11 and Section 4.9).

The Company also proposes to issue up to 1.25 million Options over Shares in the Company to Norvest Corporate Pty Ltd, exercisable at \$0.20 on or before 30 June 2008, as part payment for corporate advisory services to the Company. (See Resolution 12 and Section 4.10).

If the Resolutions at the general meeting are passed and the proposed restructuring and recapitalisation set out above is completed, the Company is likely to be in a position to seek re-instatement of its Shares to the official list of ASX. The timing of re-instatement, if at all, will be dependent on the Directors' discretion and subject to compliance with ASX and Corporations Act regulatory requirements. Completion of the recapitalisation and restructure proposal detailed above will result in the restructure of the Company's capital base, to enable trade creditors to be brought into acceptable trading terms and provide sufficient working capital to fund the Company until operations provide a positive cash flow.

3.2 Proposed Capital Structure on Completion of the Resolutions

The proposed capital structure of the Company on completion of all Resolutions detailed in the Notice of Meeting excluding the Prospectus Issue detailed in Resolution 10 is as follows:

	Resolution	Number of Shares	%	Number of Options	Number of Shares (Diluted)**	%
Number of Existing Shares		169,342,036		-	169,342,036	
Share Consolidation (1:10)	Resolution 1	16,934,204	26.0%	-	16,934,204	24.0%
Placements at 10 cents						
Mezzanine Investors	Resolution 3	2,250,000	3.5%	1,125,000 *	3,375,000	4.8%
Mr. Antony Middleton & Associates	Resolution 4	1,000,000	1.5%	500,000 *	1,500,000	2.1%
Mr. Graham Keys & Associates	Resolution 5	500,000	0.8%	250,000 *	750,000	1.1%
Additional Investors	Resolution 6	6,250,000	9.6%	2,500,000	8,750,000	12.4%
Debt Conversions at 10 cents						
Conversion LIM Debt	Resolution 7	6,500,000	10.0%	-	6,500,000	9.2%
Conversion 698 Capital Asia Pacific Debt	Resolution 8	15,000,000	23.1%	-	15,000,000	21.2%
Debt Conversions at 20 cents						
Conversion of 698 Capital Asia Pacific Debt	Resolution 9	16,600,000	25.5%	-	16,600,000	23.5%
Issue of Options	Resolution 12	-	0.0%	1,250,000 *	1,250,000	1.8%
TOTAL		65,034,204	100.0%	5,625,000	70,659,204	100.0%

* Options exercisable at \$0.20, on or before 30 June 2008.

** Assumes all Options to be issued under Resolutions 3, 4, 5, 6 and 12 are exercised.

Table 1: Proposed capital structure on completion of all Resolutions excluding the proposed Prospectus Issue in Resolution 10.

The proposed capital structure of the Company on completion of all Resolutions detailed in the Notice of Meeting is as follows:

	Resolution	Number of Shares	%	Number of Options	Number of Shares (Diluted)**	%
Number of Existing Shares		169,342,036		-	169,342,036	
Share Consolidation (1:10)	Resolution 1	16,934,204	20.5%	-	16,934,204	19.2%
Placements at 10 cents						
Mezzanine Investors	Resolution 3	2,250,000	2.7%	1,125,000 *	3,375,000	3.8%
Mr. Antony Middleton & Associates	Resolution 4	1,000,000	1.2%	500,000 *	1,500,000	1.7%
Mr. Graham Keys & Associates	Resolution 5	500,000	0.6%	250,000 *	750,000	0.9%
Additional Investors	Resolution 6	6,250,000	7.6%	2,500,000	8,750,000	9.9%
Debt Conversions at 10 cents						
Conversion LIM Debt	Resolution 7	6,500,000	7.9%	-	6,500,000	7.4%
Conversion 698 Capital Asia Pacific Debt	Resolution 8	15,000,000	18.2%	-	15,000,000	17.0%
Debt Conversions at 20 cents						
Conversion of 698 Capital Asia Pacific Debt	Resolution 9	16,600,000	20.1%	-	16,600,000	18.8%
Issue of Options	Resolution 12	-	0.0%	1,250,000 *	1,250,000	1.4%
Propsectus Issue	Resolution 10	17,500,000	21.2%	-	17,500,000	19.9%
TOTAL		82,534,204	100.0%	5,625,000	88,159,204	100.0%

* Options exercisable at \$0.20, on or before 30 June 2008.

** Assumes all Options to be issued under Resolutions 3, 4, 5, 6 and 12 are exercised.

Table 2: Proposed capital structure on completion of the Resolutions.

3.3 Shareholding Structure

Included in the table below is a summary of the major shareholders of the Company (i) at the last practical date prior to printing this Notice of Meeting ('Current'), (ii) on completion of all Resolutions as detailed in the Notice of Meeting excluding the proposed Prospectus Issue in Resolution 10 ('Pre Prospectus Issue and Post Consolidation') and (iii) on completion of all Resolutions as detailed in the Notice of Meeting ('Post Prospectus Issue and Post Consolidation').

Shareholder Group	CURRENT		PRE PROSPECTUS ISSUE & POST CONSOLIDATION		POST PROSPECTUS ISSUE & POST CONSOLIDATION	
	Existing Shares (#)	Ownership %	Ordinary Shares (#)	Ownership %	Ordinary Shares (#)	Ownership %
698 Capital International & Related Parties ¹	131,771,576	77.8%	44,777,158	68.9%	44,777,158	54.3%
LIM	-	0.0%	6,500,000	10.0%	6,500,000	7.9%
Shares Issued to Mezzanine Investors	-	0.0%	2,250,000	3.5%	2,250,000	2.7%
Shares Issued to Additional Investors	-	0.0%	6,250,000	9.6%	6,250,000	7.6%
Mr. A. Middleton	827,500	0.5%	1,082,750	1.7%	1,082,750	1.3%
Mr. G. Keys	-	0.0%	500,000	0.8%	500,000	0.6%
Other Shareholders	36,742,960	21.7%	3,674,296	5.6%	21,174,296	25.7%
TOTAL ORDINARY SHARES ON ISSUE	169,342,036	100.0%	65,034,204	100.0%	82,534,204	100.0%

¹ Includes 698 Capital Asia Pacific.

Table 3: Summary of major Shareholders of AEC.

3.4 Pro Forma Statement of Financial Position on Completion of the Resolutions

The proposed pro forma statement of financial position of the Company on completion of all Resolutions detailed in the Notice of Meeting is as follows:

\$000	Pro Forma	31 December 2003 (Reviewed)	30 June 2003 (Audited)
Current Assets	5,669	2,708	2,506
Non-Current Assets	293	286	542
Total Assets	5,962	2,994	3,048
Current Liabilities	2,611	7,884	5,132
Non-Current Liabilities	3,589	3,663	5,854
Total Liabilities*	6,200	11,547	10,986
Net Assets/(Liabilities)	(238)	(8,553)	(7,938)
Equity			
Contributed equity	9,950	25,809	25,809
Accumulated losses	(10,188)	(34,362)	(33,747)
Shareholders Funds/(Deficiency)	(238)	(8,553)	(7,938)

Source: The reviewed 31 December 2003 financial statements and the audited annual 30 June 2003 financial statements of AEC.

* The total non-current liabilities of the Company in the pro forma statement of financial position includes approximately \$3.2 million remaining debt payable to 698 Capital Asia Pacific. This loan will not be repayable prior to the end of June 2006.

Table 4: Proposed pro forma statement of financial position on completion of all Resolutions detailed in the Notice of Meeting.

The pro forma statement of financial position above includes the following adjustments:

- Movements in asset, liability and equity balances from 31 December 2003 to 30 June 2004 based on the unaudited 30 June 2004 statement of financial position sourced from the Company's 30 June 2004 management accounts.
- Cash received through the \$225,000 placement to Mezzanine Shareholders, the \$50,000 placement to Mr. G. Keys or his nominees and the \$625,000 placement to Additional Investors amounts to a total of \$900,000. Of the \$900,000 cash received, \$217,500 has been used to repay loans provided by the Mezzanine Shareholders prior to 30 June 2004 amounting to net cash received of \$682,500. Current liabilities have been reduced by an amount of \$217,500.
- Conversion of a portion totaling \$100,000 of an approximately \$150,000 loan from Mr. A. Middleton to the Company into 1.0 million Shares at \$0.10 per Share.
- Conversion of the existing approximately \$650,000 loan by LIM to the Company into up to 6.5 million Shares at \$0.10 per share.
- Conversion of a portion being \$1.5 million of the approximately \$4.7 million secured loan from 698 Capital Asia Pacific into 15.0 million Shares at \$0.10 per share.
- Conversion of the existing approximately \$3.3 million unsecured loan from 698 Capital Asia Pacific into up to 16.6 million Shares at \$0.20 per share.
- Reduction in capital by approximately \$25.8 million being the total unaudited share capital of the Company as at 30 June 2004.
- Cash received through the successful completion of the \$3.5 million proposed Prospectus Issue. Estimated costs of the issue are approximately \$400,000.

3.5 Conditionality of Resolutions

All Resolutions in the Notice of Meeting are conditional on the passing of each of the other of those Resolutions, so that those Resolutions will not have any effect unless each of Resolutions 1 to 12 is passed.

4. RESOLUTIONS

4.1 Resolution 1 – Consolidation of Capital

Resolution 1 is an ordinary resolution and is subject to all other Resolutions included in this Notice of General Meeting being passed. It proposes that the capital of the Company be altered by consolidating the Existing Shares in the Company on a 1 for 10 basis, with a Record Date being 5 business days after the date of the meeting at which this Resolution is passed, and with the resulting shares being called Ordinary Shares in the Company. This will consolidate the Company's 169,342,036 Existing Shares into approximately 16,934,204 Ordinary Shares.

If, on the Record Date, a Shareholder holds a number of Existing Shares which is not evenly divisible by 10, the number of new Shares credited to that Shareholder will be rounded up to the nearest whole number.

The consolidation will not result in any change to the substantive rights and obligations of shareholders, only a change in the number of Shares on issue. The Company's share capital, balance sheet and tax position will remain unaltered as a result of the consolidation.

The purpose of the consolidation of the Existing Shares in the Company is to reduce the number of Existing Shares on issue.

4.1.1 Regulatory Requirements

Corporations Act

Under section 256C of the Corporations Act, a reduction in capital of the nature proposed in Resolution 1 must be approved by a resolution passed at a general meeting of the company.

4.2 Resolution 2 – Reduction of Existing Capital of the Company

Resolution 2 is a special resolution and is designed to reduce the share capital of the Company in accordance with section 256C(1) of the Corporations Act by an amount of approximately \$25.8 million. Resolution 2 is subject to all other Resolutions included in this Notice of General Meeting being passed.

The basis of the reduction is that it does:

- (a) not materially prejudice the Company's ability to pay its debts as and when they fall due;
- (b) is fair and reasonable to Shareholders; and
- (c) the capital of the Company, represented by approximately \$25.8 million being a proportion of the accumulated losses of the Company, has been permanently lost.

The purpose of the reduction of the existing capital of the Company is to reduce the amount of capital on issue where the value has been permanently lost.

Under section 9 of the Corporations Act, a special resolution is a resolution that must be passed by at least 75% of the votes cast by members entitled to vote on the resolution.

4.2.1 Regulatory Requirements

Corporations Act

Section 258F permits a company to reduce its share capital by cancelling any paid-up share capital that is lost or not represented by available assets.

4.3 Resolution 3 – Placement of Ordinary Shares and Options

Resolution 3 seeks approval from Shareholders to place up to 2.25 million Shares at an issue price of \$0.10 per Share to raise \$225,000 and 1.125 million free attaching Options over Shares in the Company, exercisable at \$0.20 each on or before 30 June 2008, to the parties detailed in Annexure A to the Explanatory Statement pursuant to ASX Listing Rule 7.1 and for all other purposes. Resolution 3 is subject to all other Resolutions included in this Notice of General Meeting being passed.

All funds raised through the proposed issue of Shares and Options pursuant to Resolutions 3, 4, 5 and 6 will be used to bring trade creditors into acceptable trading terms and for working capital, including payment of the costs related to the proposed issues under Resolutions 3, 4, 5, and 6 and the costs related to the proposed Prospectus Issue pursuant to Resolution 10. Additional working capital will be applied to the current and new NGVS projects of the Company.

4.3.1 Regulatory Requirements

ASX Listing Rules

Under Chapter 7 of the ASX Listing Rules there are limitations on the capacity of a company to enlarge its capital by the issue of equity securities, without shareholder approval. The limitation is to 15% of a company's capital in any 12 month period.

ASX Listing Rule 7.1 provides that a company must not without shareholder approval, subject to certain exceptions, issue during any 12 month period any equity securities or other securities with rights of conversion to equity (such as an option) if the number of those securities exceeds 15% of the number of securities in the same class on issue at the commencement of that 12 month period.

Other Information

Listing Rule 7.3 requires that the following information be provided to Shareholders for the purpose of obtaining Shareholder Approval pursuant to Listing Rule 7.1:

- (a) Up to 2.25 million Shares at an issue price of \$0.10 per Share and 1.125 million free Options over Shares in the Company, exercisable at \$0.20 each on or before 30 June 2008, are proposed to be issued to the parties detailed in Annexure A to the Explanatory Statement.
- (b) This issue of Shares and Options pursuant to Resolution 3 will occur no later than 3 months from the date of the General Meeting or such later date to the extent permitted by an ASX waiver of the Listing Rules.
- (c) All of the Shares in Resolution 3 proposed to be issued to the parties detailed in Annexure A to the Explanatory Statement will, on issue, rank equally in all respects with the Existing Shares already on issue.
- (d) The terms of the Options proposed to be issued under Resolution 3 are attached as Annexure B to this Explanatory Statement.
- (e) The use of the funds raised is included in Section 4.3 above.
- (f) An appropriate voting exclusion statement is included in the attached Notice of Meeting.

4.3.2 Value of the Options

Detailed commentary on the value of the Options can be found in Section 5.2 of this Explanatory Memorandum.

4.4 Resolutions 4 and 5 – Placement of Ordinary Shares and Options to Mr. Antony Middleton and Mr. Graham Keys

Resolution 4 seeks approval from Shareholders to place 1.0 million Shares in the Company at an issue price of \$0.10 per Share and to issue 500,000 free attaching Options over Shares in the Company, exercisable at \$0.20 each on or before 30 June 2008, to Mr. Antony Middleton or his nominees pursuant to section 208 of the Corporations Act and ASX Listing Rule 10.11 and for all other purposes. The issue will convert \$100,000 of Mr. A. Middleton's existing loan to the Company totaling approximately \$150,000 into equity.

Resolution 5 seeks approval from Shareholders to place 500,000 Shares in the Company at an issue price of \$0.10 per Share to raise \$50,000 and 250,000 free attaching Options over Shares in the Company, exercisable at \$0.20 each on or before 30 June 2008, to Mr. Graham Keys or his nominees pursuant to section 208 of the Corporations Act and ASX Listing Rule 10.11 and for all other purposes.

Resolutions 4 and 5 are subject to all other Resolutions included in this Notice of General Meeting being passed.

All funds raised through the proposed issue of Shares and Options pursuant to Resolutions 3, 4, 5 and 6 will be used to bring trade creditors into acceptable trading terms and for working capital, including payment of the costs related to the proposed issues under Resolutions 3, 4, 5, and 6 and the costs related to the proposed Prospectus Issue pursuant to Resolution 10. Additional working capital will be applied to the current and new NGVS projects of the Company.

4.4.1 Regulatory Requirements

Corporations Act

Messrs Antony Middleton and Graham Keys are both Directors of the Company. The Directors of the Company are deemed related parties under section 228(2) of the Corporations Act. Accordingly, Resolutions 4 and 5 seek Shareholder approval, for the issue of the Shares and Options, pursuant to section 208(1)(a) of the Corporations Act.

ASX Listing Rules

Listing Rule 7.1 requires entities to obtain shareholder approval for an increase in capital of greater than 15% in any 12 month period. Listing Rule 7.2 exception 14 states Listing Rule 7.1 does not apply where an issue of securities is made with the approval of holders of ordinary securities under Listing 10.11.

Listing Rule 10.11 provides that a company must not issue equity securities to a related party without the approval of the holders of ordinary securities. The term "related party" for the purposes of this ASX Listing Rule is as defined within the meaning of section 228 of the Corporations Act and includes directors of a public company. Messrs A. Middleton and G. Keys (Resolutions 4 and 5, respectively) are Directors of the Company. Shareholder Approval is therefore sought under Resolutions 4 and 5 for the purposes of fulfilling the requirements of ASX Listing Rule 10.11.

Other Information

The following information is provided to Shareholders in accordance with Section 219 of the Corporations Act and ASX Listing Rule 10.13 to help members assess the merits of the Resolutions:

- (a) The related parties to whom the proposed Resolutions would permit the financial benefits to be given are Messrs A. Middleton and G. Keys, both Directors of the Company.
- (b) The financial benefit to be given to Mr. A. Middleton or his nominees is 1.0 million Shares in the Company at an issue price of \$0.10 per Share and 500,000 free attaching Options over Shares in the Company, exercisable at \$0.20 each on or before 30 June 2008 on conversion of a portion of Mr. A. Middleton's existing loan to the Company totaling approximately \$150,000.
- (c) The financial benefit to be given to Mr. G. Keys or his nominees is 500,000 Shares in the Company at an issue price of \$0.10 per Share and 250,000 free attaching Options over Shares in the Company, exercisable at \$0.20 each on or before 30 June 2008.
- (d) As it is proposed that Messrs A. Middleton and G. Keys, Directors of the Company, will participate in the issue of Shares and Options pursuant to Resolutions 4 and 5, they do not believe it is appropriate for them to make a recommendation as to that issue. The remaining Directors of the Company, other than Messrs A. Middleton and G. Keys, recommend the Shareholders of the Company vote in favour of Resolutions 4 and 5.
- (e) Messrs A. Middleton and G. Keys are Directors of the Company and have a direct interest in the outcome of Resolutions 4 and 5, as they are each proposed recipients of the Shares and Options referred under the Resolutions 4 and 5.
- (f) This issue of Shares and Options pursuant to Resolutions 4 and 5 will occur no later than 1 month from the date of the General Meeting or such later date to the extent permitted by an ASX waiver of the Listing Rules.
- (g) All of the Shares proposed to be issued in Resolutions 4 and 5 to Messrs A. Middleton and G. Keys will, on issue, rank equally in all respects with the Existing Shares already on issue.
- (h) The terms of the Options proposed to be issued under Resolutions 4 and 5 are attached as Annexure B to this Explanatory Statement.
- (i) The use of the funds raised is included in Section 4.4 above.
- (j) An appropriate voting exclusion statement is included in the attached Notice of Meeting.
- (k) Other than the material set out in this Explanatory Statement, the Directors are not aware of any other information which members of the Company would reasonably require in order to decide whether or not it is in the Company's interest to pass Resolutions 4 and 5.

4.4.2 Value of the Options

Detailed commentary on the value of the Options can be found in Section 5.2 of this Explanatory Memorandum.

4.5 Resolution 6 – Further Placement of Ordinary Shares and Options

Resolution 6 seeks approval from Shareholders to place up to a further 6.25 million Shares to Additional Investors at an issue price of \$0.10 per Share to raise \$625,000 and 2.5 million free attaching Options over Shares in the Company, exercisable at \$0.20 each on or before 30 June 2008 pursuant to ASX Listing Rule 7.1 and for all other purposes.

Resolution 6 is subject to all other Resolutions included in this Notice of General Meeting being passed.

All funds raised through the proposed issue of Shares and Options pursuant to Resolutions 3, 4, 5 and 6 will be used to bring trade creditors into acceptable trading terms and for working capital, including payment of the costs related to the proposed issues under Resolutions 3, 4, 5, and 6 and the costs related to the proposed Prospectus Issue pursuant to Resolution 10. Additional working capital will be applied to the current and new NGVS projects of the Company.

4.5.1 Regulatory Requirements

ASX Listing Rules

ASX Listing Rule 7.1 provides that a company must not without shareholder approval, subject to certain exceptions, issue during any 12 month period any equity securities, if the number of those securities exceeds 15% of the number of securities in the same class on issue at the commencement of that 12 month period.

Other Information

Listing Rule 7.3 requires that the following information be provided to Shareholders for the purpose of obtaining Shareholder Approval pursuant to Listing Rule 7.1:

- (a) 6.25 million Shares at an issue price of \$0.10 per Share to raise \$625,000 and 2.5 million free attaching Options over Shares in the Company, exercisable at \$0.20 each on or before 30 June 2008, are proposed to be issued to Additional Investors.
- (b) The issue of Shares and Options to the Additional Investors pursuant to Resolution 6 will occur no later than 3 months from the date of the General Meeting or such later date to the extent permitted by an ASX waiver of the Listing Rules.
- (c) At the date of this Explanatory Statement, the actual allocation of the Shares and Options proposed to be issued to the Additional Investors under Resolution 6 has not been finalised. Neither the Directors nor any of their Associates nor any other Related Party of the Company will participate in the placement of Shares pursuant to Resolution 6.
- (d) All of the Shares in Resolution 6 proposed to be issued to the Additional Investors will, on issue, rank equally in all respects with the Existing Shares already on issue.
- (e) The terms of the Options proposed to be issued under Resolution 6 are attached as Annexure B to this Explanatory Statement.
- (f) The use of the funds raised is included in Section 4.5 above.
- (g) An appropriate voting exclusion statement is included in the attached Notice of Meeting.

4.5.2 Value of the Options

Detailed commentary on the value of the Options can be found in Section 5.2 of this Explanatory Memorandum.

4.6 Resolution 7 – Conversion of LIM Loan to Equity

Resolution 7 seeks Shareholder Approval to issue up to 6.5 million Shares in the Company at a price of \$0.10 per Share to LIM on conversion of their existing loan to the Company of approximately \$650,000 pursuant to section 208 of the Corporations Act and ASX Listing Rule 10.11 and for all other purposes.

Resolution 7 is subject to all other Resolutions included in this Notice of General Meeting being passed.

4.6.1 Regulatory Requirements

Corporations Act - Chapter 2E

Mr. George Long, a Director of the Company, is the Managing Director and founder of LIM. LIM is therefore deemed to be a related party of the Company under section 228(4) of the Corporations Act. Accordingly, Resolution 7 seeks Shareholder Approval for the issue of up to 6.5 million Shares in the Company at a price of \$0.10 per Share to LIM on conversion of their existing loan of approximately \$650,000, pursuant to section 208(1)(a) of the Corporations Act.

ASX Listing Rules

Listing Rule 7.1 requires entities to obtain shareholder approval for an increase in capital of greater than 15% in any 12 month period. Listing Rule 7.2 exemption 14 states Listing Rule 7.1 does not apply where an issue of securities is made with the approval of holders of ordinary securities under Listing Rule 10.11.

Listing Rule 10.11 provides that a company must not issue equity securities to a related party without the approval of the holders of ordinary securities. Mr. George Long, a Director of the Company, is the Managing Director and founder of LIM. LIM is therefore deemed to be a related party of the Company under section 228(4) of the Corporations Act. Shareholder Approval is therefore sought under Resolution 7 for the purposes of fulfilling the requirements of ASX Listing Rule 10.11.

Other Information

The following information is provided to Shareholders in accordance with section 219 of the Corporations Act and ASX Listing Rule 10.13 to help members assess the merits of the Resolution:

- (a) The related party to whom the proposed Resolution would permit the financial benefits to be given is LIM. LIM is deemed to be a related party to the Company under section 228(4) of the Corporations Act.
- (b) The financial benefit to be given to LIM is up to 6.5 million Shares in the Company at a price of \$0.10 per Share to LIM on conversion of their existing loan of approximately \$650,000.
- (c) As Mr. G. Long is a Director of the Company and the Managing Director and founder of LIM, he does not believe it is appropriate for him to make a recommendation as to that issue. The remaining Directors of the Company, other than Mr. G. Long, recommend the Shareholders of the Company vote in favour of Resolution 7.
- (d) Mr. G. Long is a Director of the Company and the Managing Director and founder of LIM, and as such has an interest in the outcome of Resolution 7.
- (e) This issue of Shares pursuant to Resolution 7 will occur no later than 1 month from the date of the General Meeting or such later date to the extent permitted by an ASX waiver of the Listing Rules.
- (f) All of the Shares in Resolution 7 proposed to be issued to LIM will, on issue, rank equally in all respects with the Existing Shares already on issue.
- (g) An appropriate voting exclusion statement is included in the attached Notice of Meeting.
- (h) Other than the material set out in this Explanatory Statement, the Directors are not aware of any other information which members of the Company would reasonably require in order to decide whether or not it is in the Company's interest to pass Resolution 7.

4.7 Resolution 8 – Conversion of 698 Capital Asia Pacific Secured Loan to Equity

Resolution 8 seeks Shareholder Approval to issue up to 15.0 million Shares in the Company at a price of \$0.10 per Share to 698 Capital Asia Pacific on conversion of a portion of their existing secured loan to the Company of approximately \$1.5 million pursuant to section 208 of the Corporations Act and ASX Listing Rule 10.11 and for all other purposes. 698 Capital Asia Pacific's existing secured loan to the Company currently totals approximately \$4.7 million. The loan is fully secured by a fixed and floating charge over the Company.

Resolution 8 is subject to all other Resolutions included in this Notice of General Meeting being passed.

4.7.1 Regulatory Requirements

Corporations Act - Chapter 2E

698 Capital Asia Pacific and 698 Capital International are wholly owned subsidiaries of 698 Capital Global, a Company controlled by Dr. C. D. Wu. Dr. C. D. Wu and Mr. T. Liu are Directors of 698 Capital Global and Messrs A. Wang and T. Liu are founders and Directors of 698 Capital International and Mr. W. Lee is also a Director of 698 Capital International. Dr. C. D. Wu and Messrs A. Wang, T. Liu and W. Lee are all Directors of the Company. 698 Capital Asia Pacific is therefore deemed to be a related party of the Company under section 228(4) of the Corporations Act. Accordingly, Resolution 8 seeks Shareholder approval, for the issue of up to 15 million Shares in the Company at a price of \$0.10 per Share to 698 Capital Asia Pacific on conversion of a portion of their existing secured loan to the Company, pursuant to section 208(1)(a) of the Corporations Act.

ASX Listing Rules

Listing Rule 7.1 requires entities to obtain shareholder approval for an increase in capital of greater than 15% in any 12 month period. Listing Rule 7.2 exemption 14, states Listing Rule 7.1 does not apply where an issue of securities is made with the approval of holders of ordinary securities under Listing Rule 10.11.

Listing Rule 10.11 provides that a company must not issue equity securities to a related party without the approval of the holders of ordinary securities. As noted above, 698 Capital Asia Pacific is deemed to be a related party of the Company under section 228(4) of the Corporations Act. Shareholder Approval is therefore sought under Resolution 8 for the purposes of fulfilling the requirements of ASX Listing Rule 10.11.

Other Information

The following information is provided to Shareholders in accordance with section 219 of the Corporations Act and ASX Listing Rule 10.13 to help members assess the merits of the Resolution:

- (a) The related party to whom the proposed Resolution would permit the financial benefits to be given is 698 Capital Asia Pacific. 698 Capital Asia Pacific is deemed to be a related party to the Company under section 228(4) of the Corporations Act.
- (b) The financial benefit to be given to 698 Capital Asia Pacific is up to 15.0 million Shares in the Company at a price of \$0.10 per Share proposed to be issued to 698 Capital Asia Pacific on conversion of a portion, being \$1.5 million, of 698 Capital Asia Pacific's existing secured loan to the Company, which currently totals approximately \$4.7 million.
- (c) Given the relationship with 698 Capital Asia Pacific noted above, Dr. C. D. Wu and Messrs A. Wang, T. Liu and W. Lee do not believe it is appropriate for them to make recommendations as to the issue of Shares pursuant to Resolution 8. The remaining Directors of the Company, other than Dr. C. D. Wu and Messrs A. Wang, T. Liu and W. Lee, recommend the Shareholders of the Company vote in favour of Resolution 8.
- (d) Given the relationship with 698 Capital Asia Pacific noted above, Dr. C. D. Wu and Messrs A. Wang, T. Liu and W. Lee have an interest in the outcome of Resolution 8.
- (e) The issue of Shares pursuant to Resolution 8 will occur no later than 1 month from the date of the General Meeting or such later date to the extent permitted by an ASX waiver of the Listing Rules.
- (f) All of the Shares in Resolution 8 proposed to be issued to 698 Capital Asia Pacific will, on issue, rank equally in all respects with the Existing Shares already on issue.
- (g) An appropriate voting exclusion statement is included in the attached Notice of Meeting.
- (h) Other than the material set out in this Explanatory Statement, the Directors are not aware of any other information which members of the Company would reasonably require in order to decide whether or not it is in the Company's interest to pass Resolution 8.

4.8 Resolution 9 – Conversion of 698 Capital Asia Pacific Unsecured Loan to Equity

Resolution 9 seeks Shareholder Approval to issue up to 16.6 million Shares in the Company at a price of \$0.20 per Share to 698 Capital Asia Pacific on conversion of their existing loan to the Company of approximately \$3.3 million pursuant to section 208 of the Corporations Act and ASX Listing Rule 10.11 and for all other purposes.

Resolution 9 is subject to all other Resolutions included in this Notice of General Meeting being passed.

4.8.1 Regulatory Requirements

Corporations Act - Chapter 2E

As noted in Section 4.7.1 above, 698 Capital Asia Pacific is deemed to be a related party of the Company under section 228(4) of the Corporations Act. Accordingly, Resolution 9 seeks Shareholder Approval for the issue of up to 16.6 million Shares in the Company at a price of \$0.20 per Share to 698 Capital Asia Pacific on conversion of their existing unsecured loan to the Company of approximately \$3.3 million, pursuant to section 208(1)(a) of the Corporations Act.

ASX Listing Rules

Listing Rule 7.1 requires entities to obtain shareholder approval for an increase in capital of greater than 15% in any 12 month period. Listing Rule 7.2 exemption 14 states Listing Rule 7.1 does not apply where an issue of securities is made with the approval of holders of ordinary securities under Listing Rule 10.11.

Listing Rule 10.11 provides that a company must not issue equity securities to a related party without the approval of the holders of ordinary securities. 698 Capital Asia Pacific is deemed to be a related party of the Company under section 228(4) of the Corporations Act. Shareholder Approval is therefore sought under Resolution 9 for the purposes of fulfilling the requirements of ASX Listing Rule 10.11.

Other Information

The following information is provided to Shareholders in accordance with section 219 of the Corporations Act and ASX Listing Rule 10.13 to help members assess the merits of the Resolution:

- (a) The related party to whom the proposed Resolution would permit the financial benefits to be given is 698 Capital Asia Pacific. 698 Capital Asia Pacific is deemed to be a related party to the Company under section 228(4) of the Corporations Act as noted above.
- (b) The financial benefit to be given to 698 Capital Asia Pacific is up to 16.6 million Shares in the Company at a price of \$0.20 per Share on conversion of their existing loan of approximately \$3.3 million.
- (c) Given the relationship with 698 Capital Asia Pacific noted in Section 4.7.1 above, Dr. C. D. Wu and Messrs A. Wang, T. Liu and W. Lee are all Directors of the Company and do not believe it is appropriate for them to make recommendations as to the issue of Shares to 698 Capital Asia Pacific pursuant to Resolution 9. The remaining Directors of the Company, other than Dr. C. D. Wu and Messrs A. Wang, T. Liu and W. Lee, recommend the Shareholders of the Company vote in favour of Resolution 9.

- (d) Given the relationship with 698 Capital Asia Pacific noted in Section 4.7.1 above, Dr. C. D. Wu and Messrs A. Wang, T. Liu and W. Lee have an interest in the outcome of Resolution 9.
- (e) This issue of Shares pursuant to Resolution 9 will occur no later than 1 month from the date of the General Meeting or such later date to the extent permitted by an ASX waiver of the Listing Rules.
- (f) All of the Shares in Resolution 9 proposed to be issued to 698 Capital Asia Pacific will, on issue, rank equally in all respects with the Existing Shares already on issue.
- (g) An appropriate voting exclusion statement is included in the attached Notice of Meeting.
- (h) Other than the material set out in this Explanatory Statement, the Directors are not aware of any other information which members of the Company would reasonably require in order to decide whether or not it is in the Company's interest to pass Resolution 9.

4.9 Resolutions 10 and 11 – Prospectus Issue

Resolution 10 seeks Shareholder Approval to issue up to 17.5 million fully paid Ordinary Shares in the Company at a price of \$0.20 each, under a prospectus to raise \$3.5 million pursuant to ASX Listing Rule 7.1 and for all other purposes. Listing Rule 7.1 requires entities to obtain shareholder approval for an increase in capital of greater than 15% in any 12 month period. This issue of Shares will occur no later than 3 months, or such later date to the extent permitted by an ASX waiver of the Listing Rules, from the date of the General Meeting.

All funds raised through the proposed issue of Shares pursuant to Resolution 10 will be used for working capital, including payment of the costs related to the proposed Prospectus Issue. Additional working capital will be applied to the current and new NGVS projects of the Company.

The Company has not yet determined the final form to the Prospectus Issue, however, the Prospectus Issue will include a priority entitlement to Shareholders of at least 10% of the offer or in a way that, in ASX's opinion, is fair in all the circumstances. The Company will limit the number of Shares it issues to a Shareholder to the higher of 5% of all Shares being offered under the priority entitlement and the number the Shareholder would be entitled to under a pro rata issue of all those Shares.

If all of the Resolutions put to the general meeting are passed and the recapitalisation and restructure proposal proceeds, the Company is likely to be in a position to consider an application for Re-instatement on ASX. However, an application for Re-instatement on ASX will be largely dependent on the success of the Prospectus Issue, the Directors' discretion and subject to compliance with ASX and Corporations Act regulatory requirements.

Resolution 11 seeks Shareholder Approval for the right to issue up to 5.0 million Shares in the Company at an issue price of \$0.20 per Share through the proposed Prospectus Issue detailed in Resolution 10 to 698 Capital Asia Pacific or its nominees through a proposed shortfall underwriting agreement of the Prospectus Issue. The agreement will be such that 698 Capital Asia Pacific will agree to underwrite up to \$1.0 million of the Prospectus Issue should there be a shortfall in the proposed \$3.5 million raising.

4.9.1 Regulatory Requirements

Corporations Act - Chapter 2E

As noted in Section 4.9 above, Resolution 10 seeks Shareholder Approval to issue up to 17.5 million fully paid Ordinary Shares in the Company at a price of \$0.20 each, under a prospectus to raise \$3.5 million pursuant to ASX Listing Rule 7.1 and for all other purposes. Listing Rule 7.1 requires entities to obtain shareholder approval for an increase in capital of greater than 15% in any 12 month period.

As noted in Section 4.7.1 above, 698 Capital Asia Pacific is deemed to be a related party of the Company under section 228(4) of the Corporations Act. Accordingly, Resolution 11 seeks Shareholder Approval pursuant to section 208 of the Corporations Act and ASX Listing Rule 10.11 and for all other purposes for the issue of up to 5.0 million Shares in the Company at a price of \$0.20 per Share through the proposed Prospectus Issue to 698 Capital Asia Pacific through a proposed shortfall underwriting agreement.

ASX Listing Rules

Listing Rule 7.1 requires entities to obtain shareholder approval for an increase in capital of greater than 15% in any 12 month period. Listing Rule 7.2 exemption 14 states Listing Rule 7.1 does not apply where an issue of securities is made with the approval of holders of ordinary securities under Listing Rule 10.11.

Listing Rule 10.11 provides that a company must not issue equity securities to a related party without the approval of the holders of ordinary securities. 698 Capital Asia Pacific is deemed to be a related party of the Company under section 228(4) of the Corporations Act. Shareholder Approval is therefore sought under Resolution 11 for the purposes of fulfilling the requirements of ASX Listing Rule 10.11.

Other Information

The following information is provided to Shareholders in accordance with section 219 of the Corporations Act and ASX Listing Rule 10.13 to help members assess the merits of the Resolution:

- (a) The related party to whom the proposed Resolution would permit the financial benefits to be given is 698 Capital Asia Pacific. 698 Capital Asia Pacific is deemed to be a related party to the Company under section 228(4) of the Corporations Act as noted above.
- (b) The financial benefit to be given to 698 Capital Asia Pacific is up to 5.0 million Shares in the Company at a price of \$0.20 per Share issued through a proposed shortfall underwriting agreement of the Prospectus Issue.
- (c) Given the relationship with 698 Capital Asia Pacific noted in Section 4.7.1 above, Dr. C. D. Wu and Messrs A. Wang, T. Liu and W. Lee are all Directors of the Company and do not believe it is appropriate for them to make recommendations as to the issue of Shares to 698 Capital Asia Pacific pursuant to Resolution 11. The remaining Directors of the Company, other than Dr. C. D. Wu and Messrs A. Wang, T. Liu and W. Lee, recommend the Shareholders of the Company vote in favour of Resolution 11.
- (d) Given the relationship with 698 Capital Asia Pacific noted in Section 4.7.1 above, Dr. C. D. Wu and Messrs A. Wang, T. Liu and W. Lee have an interest in the outcome of Resolution 11.
- (e) This issue of Shares pursuant to Resolution 11 will occur no later than 1 month from the date of the General Meeting or such later date to the extent permitted by an ASX waiver of the Listing Rules.
- (f) All of the Shares in Resolution 11 that may be issued to 698 Capital Asia Pacific will, on issue, rank equally in all respects with the Existing Shares already on issue.
- (g) An appropriate voting exclusion statement is included in the attached Notice of Meeting.
- (h) Other than the material set out in this Explanatory Statement, the Directors are not aware of any other information which members of the Company would reasonably require in order to decide whether or not it is in the Company's interest to pass Resolution 11.

4.10 Resolution 12 – Placement of Options to Norvest Corporate Pty Ltd

Resolution 12 seeks approval from Shareholders to issue to Norvest Corporate up to 1.25 million free Options over Shares in the Company, exercisable at \$0.20 each on or before 30 June 2008, as part payment for corporate advisory services, pursuant to section 208 of the Corporations Act and ASX Listing Rule 10.11 and for all other purposes.

Resolution 12 is subject to all other Resolutions included in this Notice of General Meeting being passed.

4.10.1 Regulatory Requirements

Corporations Act - Chapter 2E

Mr. G. Keys, a Director of the Company, is the Managing Director and a shareholder of Norvest Corporate. Norvest Corporate is therefore deemed to be a related party of the Company under section 228(4) of the Corporations Act. Accordingly, Resolution 12 seeks Shareholder approval, for the issue of up to 1.25 million free Options over Shares in the Company, exercisable at \$0.20 each on or before 30 June 2008, pursuant to section 208(1)(a) of the Corporations Act.

ASX Listing Rules

Listing Rule 7.1 requires entities to obtain shareholder approval for an increase in capital of greater than 15% in any 12 month period. Listing Rule 7.2 exemption 14 states Listing Rule 7.1 does not apply where an issue of securities is made with the approval of holders of ordinary securities under Listing 10.11.

Listing Rule 10.11 provides that a company must not issue equity securities to a related party without the approval of the holders of ordinary securities. The term "related party" for the purposes of this ASX Listing Rule is as defined within the meaning of section 228 of the Corporations Act and includes entities controlled by other related parties. As stated above, Mr. G. Keys, a Director of the Company, is deemed to be a related party of the Company under section 228(4) of the Corporations Act. Shareholder Approval is therefore sought under Resolution 12 for the purposes of fulfilling the requirements of ASX Listing Rule 10.11.

Other Information

The following information is provided to Shareholders in accordance with section 219 of the Corporations Act and ASX Listing Rule 10.13 to help members assess the merits of the Resolution:

- (a) The related party to whom the proposed Resolution would permit the financial benefits to be given is Norvest Corporate. Norvest Corporate is deemed to be a related party to the Company under section 228(4) of the Corporations Act.

- (b) The financial benefit to be given to Norvest Corporate is up to 1.25 million free Options over Shares in the Company, exercisable at \$0.20 each on or before 30 June 2008 as part payment for corporate advisory services.
- (c) Mr. G. Keys is a Director of the Company and the Managing Director and a shareholder in Norvest Corporate and as such has an interest in the outcome of Resolution 12. Mr. G. Keys does not believe it is appropriate for him to make a recommendation as to the issue of Options pursuant to Resolution 12. The remaining Directors of the Company, other than Mr. G. Keys, recommend the Shareholders of the Company vote in favour of Resolution 12.
- (d) This issue of Options pursuant to Resolution 12 will occur no later than 1 month from the date of the General Meeting or such later date to the extent permitted by an ASX waiver of the Listing Rules.
- (e) The terms of the Options proposed to be issued under Resolution 12 are attached as Annexure B to this Explanatory Statement.
- (f) An appropriate voting exclusion statement is included in the attached Notice of Meeting.
- (g) Other than the material set out in this Explanatory Statement, the Directors are not aware of any other information which members of the Company would reasonably require in order to decide whether or not it is in the Company's interest to pass Resolution 12.

4.10.2 Value of the Options

Detailed commentary on the value of the Options can be found in Section 5.2 of this Explanatory Memorandum.

5. OTHER INFORMATION

5.1 Action to be Taken By Shareholders

Attached to the Notice of Meeting accompanying this Explanatory Statement is a Proxy Form for the use by Shareholders. All Shareholders are invited and encouraged to attend the General Meeting or, if they are unable to attend in person and are eligible to vote, to complete, sign and return the Proxy Form to the Company in accordance with the instructions contained in the Proxy Form and the Notice of Meeting.

Should any Shareholder be in doubt as to how they should vote on these Resolutions and/or as to how they may affect them, Shareholders should seek advice from their accountant, solicitor or other professional adviser as soon as possible. Queries as to the lodgement of proxies and other formalities in relation to the General Meeting should be directed to the Managing Director, Antony Middleton on telephone: +61 8 9209 6900.

5.2 Option Valuation

The Options proposed to be issued pursuant to Resolutions 3, 4, 5 and 6 are being issued for nil consideration and the Options proposed to be issued pursuant to Resolution 12 are being issued as part payment for corporate advisory services to the Company. The quantum benefit attributable to the Options is dependent, in part, on the price at which the Shares can be traded. At the date of the General Meeting, the Shares will not have a readily attributable market value. Based on the issue price of \$0.10 per Share for the proposed issue of Shares under Resolutions 3 to 6 and the exercise price of the Options of \$0.20, the value of the Options, based on their intrinsic value at the date of the General Meeting, has been assessed as nil.

However, it can be argued that Options have a value which can be assessed using various theoretical valuation methodologies. These theoretical models are designed to allow for the intrinsic value, the time value of money and the volatility of the share price movement. The most common valuation method is the Black & Scholes valuation model.

The Black & Scholes Method

In accordance with a policy requirement of ASIC, the Company notes that a value of approximately 1.1 cents per Option to be issued under Resolutions 3, 4, 5, 6 and 12 may be attributable. This value was arrived at using the Black & Scholes valuation method. This value would equate to a total value of the Options proposed to be issued in each of the relevant Resolutions 3, 4, 5, 6 and 12 as detailed in Section 4 above as follows:

RESOLUTION	NUMBER OF OPTIONS	TOTAL VALUE \$
Resolution 3	1,125,000	12,375
Resolution 4	500,000	5,500
Resolution 5	250,000	2,750
Resolution 6	2,500,000	27,500
Resolution 12	1,250,000	13,750

Table 5: Values of Options proposed to be issued pursuant to Resolutions 3, 4, 5, 6 and 12.

The calculation is based on the following inputs and assumptions:

- Share Price - \$0.10.
- Exercise price - \$0.20.
- Risk free interest rate - 5.35%.
- Volatility factor of 33% (based on average 90 day volatility of three similar companies listed on the ASX).
- Expiry date of 30 June 2008.

A summary of the assumptions underlying the Black & Scholes model are as follows:

- the option is a European option and therefore can only be exercised on the expiration date (in practice, most options issued in Australia are American options and can be exercised at any time during the life of the option);
- there are no margin requirements, taxes or transaction costs;
- short selling is allowed without restriction or penalty;
- the risk free rate of interest is known and constant throughout the duration of the option contract;
- the underlying shares do not pay a dividend; and
- the volatility of the stock is constant.

Any change in the variables applied in the Black & Scholes model prior to the date the Options are granted would have an impact on their value.

The Options proposed to be issued will only have value if on the date that the Options are exercised, the market price of the Company's shares exceeds the exercise price of the Options. In these circumstances, recipients of the Options will obtain a financial benefit equivalent to the difference between the market value and exercise price.

Dilution Effect

The issue of the Options proposed in each of the relevant Resolutions 3, 4, 5, 6 and 12 will have a diluting effect on the value of Existing Shareholders' holdings if the Options are exercised.

The dilution effect if all the Options proposed to be issued under each of the Resolutions are exercised on an undiluted and diluted basis on the total ordinary fully paid Shares on issue, based on the Company's issued share capital as at the last practicable date before printing this Notice of Meeting and assuming that all Share and Option issues under all Resolutions proposed in this Notice of Meeting are approved prior to and post the proposed Prospectus Issue is as follows:

RESOLUTION	PRIOR TO PROSPECTUS ISSUE		POST PROSPECTUS ISSUE	
	% (UNDILUTED)	% (DILUTED)	% (UNDILUTED)	% (DILUTED)
Resolution 3	1.7%	1.6%	1.4%	1.3%
Resolution 4	0.8%	0.7%	0.6%	0.6%
Resolution 5	0.4%	0.4%	0.3%	0.3%
Resolution 6	3.8%	3.5%	3.0%	2.8%
Resolution 12	1.9%	1.8%	1.5%	1.4%
TOTAL	8.6%	8.0%	6.8%	6.4%

Table 6: Dilution effect of proposed Option issues.

5.3 Share Price History

The Company's Shares are currently suspended from the official list on the ASX. The Shares were suspended from official Quotation on the ASX on 28 October 2002 and therefore do not currently have a readily attributable market value.

5.4 ASIC and ASX's Role

The fact that the accompanying Notice of Meeting, this Explanatory Statement and other relevant documentation has been received by ASX and ASIC is not to be taken as an indication of the merits of the Resolutions. ASIC, ASX and its respective officers take no responsibility for any decision an Existing Shareholder may make in reliance on any of that documentation.

5.5 Interests of Directors

Included in the table below are the numbers of Ordinary Shares held by the Company's current Directors and their Associates and the percentage ownership in the capital structure of the Company at the last practicable date before printing this Notice of Meeting. No Options are currently on issue.

Name of Director	CURRENT CAPITAL STRUCTURE	
	Existing Shares	Percentage Ownership
	(#)	(%)
Dr. C. Daniel Wu & Associates ¹	131,771,576	77.8%
Mr. Antony Middleton & Associates	827,500	0.5%
Mr. George Long & Associates	-	0.0%
Mr. Graham Keys & Associates	-	0.0%
Mr. Arthur Wang & Associates ²	131,771,576	77.8%
Mr. Thomas Liu & Associates ²	131,771,576	77.8%
Mr. William Lee & Associates ²	131,771,576	77.8%
TOTAL EXISTING SHARES ON ISSUE	169,342,036	

¹ Dr. C. D. Wu is the ultimate controller of 698 Capital International Limited, the Company's parent company.

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

Table 7: *Current interests of Directors.*

The table below shows the percentage ownership of the Company's Directors and their Associates, on a diluted and undiluted basis, based on the Company's issued share capital as at the last practicable date before printing this Notice of Meeting and assuming completion of all Resolutions proposed under this Notice of Meeting excluding the proposed Prospectus Issue in Resolution 10.

Name of Director	PRE PROSPECTUS ISSUE			
	Ordinary Shares	Options	Percentage Ownership (Undiluted)	Percentage Ownership (Diluted)
	(#)	(#)	(%)	(%)
Dr. C. Daniel Wu & Associates ¹	44,677,158	-	68.7%	63.2%
Mr. Antony Middleton & Associates	1,082,750	500,000	1.7%	2.2%
Mr. George Long & Associates ³	6,500,000	-	10.0%	9.2%
Mr. Graham Keys & Associates ⁴	500,000	1,500,000	0.8%	2.8%
Mr. Arthur Wang & Associates ²	44,677,158	-	68.7%	63.2%
Mr. Thomas Liu & Associates ²	44,677,158	-	68.7%	63.2%
Mr. William Lee & Associates ²	44,677,158	-	68.7%	63.2%
TOTAL ORDINARY SHARES	65,034,204			
TOTAL ORDINARY SHARES	70,659,204			

¹ Dr. C. D. Wu is the ultimate controller of 698 Capital International Limited, the Company's parent company.

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

³ Mr. G. Long is a Director of LIM.

⁴ Mr. G. Keys is a Director of Norvest Corporate.

Table 8: Proposed interests of Directors on completion of all Resolutions excluding the Proposed Prospectus Issue.

The table below shows the percentage ownership of the Company's Directors and their Associates, on a diluted and undiluted basis, based on the Company's issued share capital as at the last practicable date before printing this Notice of Meeting and assuming completion of all Resolutions excluding Resolution 11.

Resolution 11 has not been included in the table below as 698 Capital Asia Pacific will only receive Shares under the proposed Prospectus Issue detailed in Resolution 10 if there is a shortfall in the proposed \$3.5 million raising. Should up to the additional 5.0 million Ordinary Shares be issued to 698 Capital Asia Pacific under the proposed shortfall underwriting agreement, Dr. C. D. Wu and Associates, Mr. Arthur Wang and Associates, Mr. T. Liu and Associates and Mr. W. Lee and Associate's percentage ownership on an undiluted basis would increase to 60.2% each and 56.3% each on a diluted basis.

Name of Director	POST PROSPECTUS ISSUE			
	Ordinary Shares	Options	Percentage Ownership (Undiluted)	Percentage Ownership (Diluted)
	(#)	(#)	(%)	(%)
Dr. C. Daniel Wu & Associates ¹	44,677,158	-	54.1%	50.7%
Mr. Antony Middleton & Associates	1,082,750	500,000	1.3%	1.8%
Mr. George Long & Associates ³	6,500,000	-	7.9%	7.4%
Mr. Graham Keys & Associates ⁴	500,000	1,500,000	0.6%	2.3%
Mr. Arthur Wang & Associates ²	44,677,158	-	54.1%	50.7%
Mr. Thomas Liu & Associates ²	44,677,158	-	54.1%	50.7%
Mr. William Lee & Associates ²	44,677,158	-	54.1%	50.7%
TOTAL ORDINARY SHARES	82,534,204			
TOTAL ORDINARY SHARES	88,159,204			

¹ Dr. C. D. Wu is the ultimate controller of 698 Capital International Limited, the Company's parent company.

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

³ Mr. G. Long is a Director of LIM.

⁴ Mr. G. Keys is a Director of Norvest Corporate.

Table 9: Proposed interests of Directors on completion of all Resolutions excluding Resolution 11.

Directors' Remuneration

The unaudited details of the nature and amount of each major element of the remuneration of each Director of the Company for the year ended 30 June 2004 is shown in the table below.

Name of Director	Salary/Fees	Benefits	Superannuation	Total
Dr. C. Daniel Wu	-	-	-	-
Mr. Antony Middleton	120,087	16,571	12,064	148,722
Mr. George Long	-	-	-	-
Mr. Graham Keys	25,068	-	-	25,068
Mr. Arthur Wang	-	-	-	-
Mr. Thomas Liu	-	-	-	-
Mr. William Lee	-	-	-	-
TOTAL	145,155	16,571	12,064	173,790

Table 10: Directors remuneration for the year ended 30 June 2004.

6. DEFINITIONS

In this Explanatory Statement:

AEC means Advanced Engine Components Limited, ACN 009 081 770.

ASIC means the Australian Securities and Investments Commission.

Additional Investors are the parties to receive Shares and Options pursuant to the placement proposed in Resolution 6 of the Notice of Meeting. At the date of this Explanatory Statement, the actual allocation of the Shares and Options proposed to be issued to the Additional Investors under Resolution 6 has not been finalised. Neither the Directors nor any of their Associates nor any other Related Party of the Company will participate in the placement of Shares and Options pursuant to Resolution 6.

Associate has the meaning set out in sections 11 to 17 of the Corporations Act.

ASX means Australian Stock Exchange Limited, ACN 008 624 691.

Board means the Board of Directors of the Company.

Business Day means a day that is not a Saturday or Sunday, or a public holiday or bank holiday in Western Australia.

Company means Advanced Engine Components Limited, ACN 009 081 770.

Corporations Act means the Corporations Act 2001 (Cth).

Director means a director of the Company.

Existing Shares means the issued ordinary shares in the Company on issue at the date of the General Meeting before the Share Consolidation.

Existing Shareholder means the holder of an Existing Share.

Explanatory Statement means the explanatory statement accompanying the Notice of Meeting.

General Meeting means the meeting of the Shareholders convened for the purposes (including others) of considering the Resolutions contained in the Notice of Meeting.

Irisbus is a company based in Lyon, France, initially a joint venture formed by engine manufacturers Renault (France) and Iveco (Italy) to build and market buses and coaches, and is now wholly owned by Iveco.

LIM means LIM Asia Arbitrage Fund Inc., a company incorporated in British Virgin Islands.

LIM Loan means LIM's existing loan to the Company of up to \$650,000.

Listing Rules means the Listing Rules of the ASX.

Meeting means the meeting of the Shareholders convened for the purposes (including others) of considering the Resolutions contained in the Notice of Meeting.

Mezzanine Investors are the parties detailed in Annexure A of this Explanatory Statement who are proposed to receive 2.25 million Shares in the Company at an issue price of \$0.10 per Share to raise \$225,000 and 1.125 million free attaching Options over Shares in the Company pursuant to Resolution 3.

NGVS means natural gas vehicle system.

Norvest Corporate means Norvest Corporate Pty Ltd, ABN 45 092 381 283.

Notice of Meeting means the notice convening the General Meeting accompanying this Explanatory Statement.

Option means an issued option to acquire an Ordinary Share in the capital of the Company exercisable at \$0.20 each on or before 30 June 2008 and subject to the terms and conditions attached as Annexure B.

Ordinary Share means a fully paid ordinary share in the Company post the Share Consolidation.

Proxy Form means the form of proxy accompanying this Notice of Meeting.

Quotation means quotation as defined in the Listing Rules except for Ordinary Shares that are restricted securities under the Listing Rules.

Record Date means the date the share registry will determine the amount of Ordinary Shares to be consolidated pursuant to the Share Consolidation.

Re-instatement means re-instatement of all the Ordinary Shares to Quotation except for any Ordinary Shares that are restricted securities under the Listing Rules.

Related Party means a party so defined by section 228 of the Corporations Act.

Resolution means a resolution proposed to be passed at the General Meeting and contained in the Notice of Meeting.

Prospectus Issue means the proposed prospectus issue of up to 17.5 million fully paid Ordinary Shares in the Company at \$0.20 per Share to raise \$3.5 million.

Section means a section of this Explanatory Statement.

Share means a fully paid ordinary share in the Company post the Share Consolidation.

Share Consolidation means the consolidation of the issued share capital of the Company on the basis of 1:10 from the 169,342,036 Existing Shares to approximately 16,934,204 Ordinary Shares as proposed under Resolution 1.

Shareholder means a person entered in the Company's register as a holder of a Share.

Shareholder Approval means in relation to a Resolution approval of the shareholders of the Company in general meeting in accordance with the requirements of the Corporations Act and the Listing Rules applicable to the Resolution.

Statement means this Explanatory Statement to Shareholders of Advanced Engine Components Limited.

698 Capital Asia Pacific means 698 Capital Asia Pacific Limited, a company incorporated in the British Virgin Islands.

698 Capital International means 698 Capital International Limited ARBN 105 459 130, a company incorporated in British Virgin Islands.

698 Capital Global means 698 Capital Global (No. 19) Limited, a company incorporated in the British Virgin Islands.

ANNEXURE A

Included in the table below is a list of parties under which Resolution 3 seeks approval from Shareholders to place up to 2.25 million Shares at an issue price of \$0.10 per Share to raise \$225,000 and 1.125 million free attaching Options over Shares in the Company, exercisable at \$0.20 each on or before 30 June 2008 pursuant to ASX Listing Rule 7.1 and for all other purposes.

NAME	ORDINARY SHARES	\$	OPTIONS*
Vivekananthan s/o M. V. Nathan	1,000,000	100,000	500,000
Darren Cruickshank	150,000	15,000	75,000
Paul Carroll	150,000	15,000	75,000
Dalglish Retirement Fund	150,000	15,000	75,000
RBC Global Services Australia Nominees Pty Limited	150,000	15,000	75,000
Pauline Neumann	50,000	5,000	25,000
Anne Day	150,000	15,000	75,000
Chipman Nominees Pty Ltd	300,000	30,000	150,000
Liam O'Connor	150,000	15,000	75,000
	<u>2,250,000</u>	<u>225,000</u>	<u>1,125,000</u>

* Options exercisable at \$0.20, on or before 30 June 2008.

ANNEXURE B

TERMS OF OPTIONS TO BE ISSUED

Included below are the terms of the 5.625 million Options to be issued pursuant to Resolutions 3, 4, 5, 6 and 12.

The terms and conditions of the Options are as follows:

- (a) The exercise price of each Option is \$0.20 ("the Exercise Price").
- (b) Each Option will automatically lapse if not exercised on or before 30 June 2008.
- (c) Each Option shall entitle the holder to subscribe for and to be allotted one share in the capital of the Company upon exercise of the Option and payment to the Company of the Exercise Price.
- (d) An Option may be exercised by the optionholder at any time prior to the expiry date by sending a completed and signed notice of exercise, together with the payment of the exercise price and the certificate for the Option, to the Company's share registry. If the optionholder holds more than one Option, the Options may be exercised in whole or in part.
- (e) A notice of exercise is only effective when the Company has received the full amount of the exercise price in cash or cleared funds.
- (f) Subject to any restrictions in the Listing Rules, within 14 days of receipt of a properly executed notice of exercise and the required application moneys the number of shares specified in the notice will be allotted.
- (g) Each certificate will bear a suitable form of notice of exercise of the Options, endorsed on the back of the certificate, for completion by the optionholder (if required). If the Options comprised in any such certificate are exercised in part only, before the expiry date, the Company will issue the optionholder with a fresh certificate for the balance of the Options held and not yet exercised.
- (h) The period during which the Options may be exercised will not be extended.
- (i) The optionholder is not entitled to participate in new issues of securities offered to shareholders. The optionholder can participate in new issues of securities offered to shareholders if the Option is exercised before the relevant record date for that new issue.
- (j) If from time to time before the expiry of the Options the Company makes an issue of shares to the holders of ordinary shares by way of capitalisation of profits or reserves (a "bonus issue") other than in lieu of a dividend payment, then upon exercise of an Option the optionholder will be entitled to have issued to it (in addition to the shares which it is otherwise entitled to have issued to it upon such exercise) additional shares in the Company. The number of additional shares is the number of shares which would have been issued to it under that bonus issue ("bonus shares") if on the date on which entitlements were calculated it had been registered as the holder of the number of shares which it would have been registered as holder if immediately before that date it had exercised its Options. The bonus shares will be paid up by the Company out of profits or reserves (as the case may be) in the same manner as was applied in relation to the bonus issue and upon issue will rank *pari passu* in all respects with the other shares allotted upon exercise of the Options.
- (k) In the event of any reconstruction (including consolidation, subdivision, reduction, cancellation or return) of the issued capital of the Company before the expiry of any Options, all rights of the optionholder, will be reconstructed (as appropriate) in accordance with the Listing Rules applying to a re-organisation of capital at the time of the re-organisation.
- (l) Ordinary Shares allotted pursuant to the exercise of the Options will rank equally with the then issued ordinary shares of the Company.
- (m) Should the Company at any time over the life of the Option be readmitted to the ASX and an optionholder exercises Options post the readmission date, the Company undertakes to apply for official Quotation by the ASX of all ordinary shares allotted pursuant to the exercise of any Options, within 10 business days of the date of allotment of those new Ordinary Shares.
- (n) The Option does not confer the right to a change in Exercise Price, or a change to the number of underlying securities over which it can be exercised.

INSTRUCTIONS FOR COMPLETING THE FORM OF PROXY

1. To vote by proxy, please complete and sign the Proxy Form enclosed with this Notice of General Meeting as soon as possible and either:
 - send the Proxy Form by facsimile to the Company on +61 8 9209 6999;
 - post the Proxy Form to the Company at PO Box 3126, Malaga WA 6090; or
 - deliver the Proxy Form to the registered office of the Company at 14 Energy Street, Malaga WA 6090.
2. Proxy Forms must be received by the Company not later than 48 hours before the time specified for the commencement of the General Meeting.
3. A member entitled to attend and vote at the meeting is entitled to appoint not more than two proxies to attend and vote on their behalf. Where more than one proxy is appointed, such proxy must be allocated a proportion of the member's voting rights.
4. *If two proxies are appointed you may delete "all" and insert the relevant number or proportion of shares in respect of which each such appointment is made. If the shareholder appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half the votes.
5. Should you desire to direct your proxy how to vote, place a cross in the appropriate box for each item, otherwise your proxy may vote as your proxy thinks fit or abstain from voting.
6. A duly appointed proxy need not be a member of the Company. In the case of joint holders, all must sign.
7. Corporate Shareholders should comply with the execution requirements set out on the Proxy Form or otherwise with the provision of section 127 of the Corporations Act. Section 127 of the Corporations Act provides that a company may execute a document without using its common seal if the document is signed by:
 - 2 directors of the company;
 - a director and a company secretary of the company; or
 - for a proprietary company that has a sole director who is also the sole company secretary – that director.
8. Completion of a Proxy Form will not prevent individual Shareholders from attending the meeting in person if they wish. Where a Shareholder completes and lodges a valid Proxy Form and attends the meeting in person, the proxy's authority to speak and vote for that Shareholder is suspended while the Shareholder is present at the meeting.
9. Where a Proxy Form or form of corporate representative is lodged and is executed under power of attorney, the power of attorney must be lodged with this proxy.

ADVANCED ENGINE COMPONENTS LIMITED
ACN 009 081 770
FORM OF PROXY

I/We (print name)

of

a member/members of Advanced Engine Components Limited (ACN 009 081 770) hereby appoint

of

or failing him/her

of

or failing him/her, the Chairman of the meeting, as my/our proxy at the General Meeting of the Company to be held commencing at 10.30am on Wednesday, 8 September 2004, and at any adjournment thereof and to vote for me/us on my/our behalf in respect of all/the following*

.....

of my/our shares in the manner as set out below.

In relation to any undirected proxies the Chairman intends to vote in favour of all Resolutions.

If you do not wish to instruct your proxy how to vote, please place a cross in the box.

☐

By marking this box you acknowledge that the Chairman may exercise your proxy even if he has an interest in the outcome of the resolution and votes cast by him other than as proxy holder will be disregarded because of that interest.

		For	Against	Abstain
Resolution 1	Approve Consolidation of Capital	☐	☐	☐
Resolution 2	Approve Reduction of Existing Capital	☐	☐	☐
Resolution 3	Approve Placement of Shares and Options	☐	☐	☐
Resolution 4	Approve Issue of Shares and Options to Mr. Antony Middleton	☐	☐	☐
Resolution 5	Approve Issue of Shares and Options to Mr. Graham Keys	☐	☐	☐

		For	Against	Abstain
Resolution 6	Approve Placement of Shares and Options	☐	☐	☐
Resolution 7	Conversion of LIM Loan to Equity	☐	☐	☐
Resolution 8	Conversion of 698 Capital Asia Pacific Secured Loan to Equity	☐	☐	☐
Resolution 9	Conversion of 698 Capital Asia Pacific Unsecured Loan to Equity	☐	☐	☐
Resolution 10	Prospectus Issue	☐	☐	☐
Resolution 11	Issue of Shares to 698 Capital Asia Pacific	☐	☐	☐
Resolution 12	Issue of Options to Norvest Corporate	☐	☐	☐

Dated this day of 2004.

Signature of Member/s

Individuals and joint holders	Companies (affix common seal if appropriate)
Signature	Director/Sole Director
Signature	Director/Company Secretary
Signature	Sole Director and Sole Company Secretary