



Quality
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Our Ref: AM:GK

3 December 2004

Company Announcements office
The Australian Stock Exchange Limited

By: e-lodgement

Dear Sir/Madam

Re: AEC DIRECTORS SEEK APPROVAL TO INVEST IN PROSPECTUS OFFER

Application for waiver

The Chairman and the Managing Director of Advanced Engine Components (AEC) propose subscribing for 1.5 million shares in the current prospectus offer.

Australian Stock Exchange Ltd ("ASX") Listing Rules prohibit the issue of shares to directors or their related parties without prior shareholder approval. The Company intends applying to the ASX for a waiver of listing rule 10.11 to enable the Directors to apply for 1.5 million shares in the public offer.

The Directors application for shares will be conditional on all shareholders being given prior written notice of the Directors intent together with:

- (a) non director-related shareholder applications; and
- (b) director related applications approved by shareholders,

receiving priority over the Directors applications.

The closing date of the offer has been extended to 10 December 2004 to allow additional time for existing shareholders and institutional investors to consider the offer. The attached letter explaining the situation has been posted to all shareholders.

Update on company progress

- Development of a Compressed Natural Gas (CNG) engine system for the major Chinese vehicle manufacturer First Auto Works (FAW) has been completed. FAW engineers will visit Perth in December 2004 for familiarisation training. The first FAW CNG engine will be shipped by AEC to China in January 2005 to be trialled on city bus routes. This will be followed by certification and FAW's commencement of mass production of CNG engines in China by mid-2005.





- The successful completion of this initial development of an FAW CNG engine has led to the extension of the co-operation agreement between AEC and FAW until December 2006. Under the extended agreement AEC will develop natural gas systems for further types of FAW base engines.
- AEC and FAW have agreed a joint strategy to target the Pakistan market. Currently Pakistan has approximately 100,000 diesel buses which need to be converted to CNG in 2005/06. FAW will provide AEC with a CNG engine, incorporating AEC's Natural Gas Vehicle System (NGVS), for trialling in a bus manufactured by Automobile Corporation of Pakistan. Pakistan is reported to run third among CNG users in the world and the Pakistan government intends to import 2000 dedicated CNG buses annually.
- AEC has lodged a joint tender with the Iranian Fuel Conservation Organisation for the supply of 6000 CNG engines over a three-year period. The tender has been lodged jointly by AEC, the major Chinese engine manufacturer Weichai, with which AEC has a product development agreement, and Energy International Australia.

For further information please contact Tony Middleton, Managing Director, on 9209 6911.

Yours faithfully

Simon Storm
Company Secretary

Att.





ADVANCED ENGINE COMPONENTS LIMITED

ACN: 009 081 770



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Our Ref: GK/TM

3 December 2004

"Name"
"Company"
"Address"
"Suburb"

Dear Shareholder

PROSPECTUS OFFER

You will have recently received a prospectus offering you shares in your Company and subsequently a letter and research note from the sponsoring brokers D J Carmichael Pty Ltd.

On Thursday 2 December 2004, the Company announced to the Australian Stock Exchange that it was extending the offer period to 5pm WST on 10 December 2004.

The offer was extended for three important reasons:

- (a) existing shareholders may not have fully appreciated the information provided as to their entitlement to subscribe;
- (b) the Chairman and Managing Director intend applying for 1.5 million shares at the 20 cent issue price which they are currently prohibited from doing pursuant to the Australian Stock Exchange Listing Rules; and
- (c) discussions are continuing with potential Institutional Investors deemed to be beneficial to the Company's share register.

Existing Shareholders

Over 150 existing shareholders have taken up the offer to round up to a marketable parcel of 2,500 shares and/or apply for additional shares.

A number of shareholders have advised they understood their entitlement was restricted to the priority round up facility or that they were unlikely to receive any shares in excess of the priority offer. This is not the case.

This capital raising is likely to be the last capital raising, in the foreseeable future, that will include an entitlement to existing shareholders. As a result, your Directors believe it is important that all shareholders receive all the shares they apply for and will use every endeavour to ensure this occurs.





The Company shares last traded at approximately 4 cents per share immediately prior to their suspension from trading in October 2002. The Company has advanced significantly since then. The offer price of 20 cents is equivalent to half this trading price after allowing for the 1 for 10 consolidation approved on 8 September 2004.

The major shareholder, 698 Capital International Limited, has acquired 17.5 million shares at the offer price of 20 cents and agreed to take up to a further 5 million shares offered by the prospectus at the offer price of 20 cents per share.

The Chairman and Managing Director, or their related parties, intend applying for 1.5 million shares at the 20 cent offer price.

Director Share Applications

The listing rules of the Australian Stock Exchange prohibit the Company from issuing shares, including shares issued at full subscription price, to the Directors or their related parties without prior shareholder approval.

The Chairman and Managing Director, or their related parties, intend to apply for 1.5 million shares pursuant to the prospectus at 20 cents per share. As prior shareholder approval has not been received these shares will only be issued if a waiver to the listing rules is granted by the Australian Stock Exchange.

The allocation of these shares to the Chairman and Managing Director will be conditional on all shareholders having received prior written advice of the Directors intent, ie this letter and today's announcement to ASX, together with:

- (a) all non director related shareholder applications; and
- (b) all director related shareholder applications approved by shareholders at the 8 September 2004 shareholders meeting,

being issued in priority to any allocation to the Chairman or Managing Director.

Institutional Investors

Your Directors believe it is beneficial to the Company to add Australian Institutional investors to the Company share register. In this regard it is prepared to provide these potential investors this additional time to assess the investment opportunity.

For further information in relation to the above or should you require another copy of the prospectus or application form please contact:

Tony Middleton - Managing Director, on (08) 9209 6911;

Graham Keys - Chairman, on (08) 9324 8555; or

Email: shares@advancedengine.com

Yours faithfully

Graham Keys
Chairman

