ADVANCED ENGINE COMPONENTS LIMITED
ACN: 009 081 770

Quality System
Quality Endorsed Company
ISO 9001 Lic.13705
SAI Global

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13 December 2005

Company Announcements Office
Australian Stock Exchange Limited

By e-lodgement

SHORT FORM PLACEMENT PROSPECTUS

The Company advises that it has today completed and lodged a short form prospectus with the Australian Securities and Investments Commission. The Prospectus is dated 13 December 2005 and was prepared in accordance with Section 712 of the Corporations Act for the purpose of facilitating trading in shares in accordance with Section 707(3) of the Corporations Act.

The Prospectus was prepared for the placement to nominated parties of Capital Investment Partners Pty Ltd of up to 11,430,000 shares at 13.5 cents each to raise $1,543,050.

The Prospectus follows.

Yours faithfully

Graham Keys
Chairman

For further information contact:
Tony Middleton on (08) 9209 6900;
Graham Keys – Chairman on (08) 9324 8555; or
Email: shares@advancedengine.com

ADVANCED ENGINE COMPONENTS LIMITED

ACN 009 081 770

SHORT FORM PROSPECTUS

FOR THE PLACEMENT TO NOMINATED PARTIES OF CAPITAL INVESTMENT PARTNERS PTY LTD OF UP TO 11,430,000 SHARES AT 13.5 CENTS EACH TO RAISE $1,543,050

IMPORTANT NOTICE

This Prospectus is a short form prospectus issued in accordance with Section 712 of the Corporations Act 2001. The Prospectus does not of itself contain all the information that is generally required to be set out in a document of this type but refers to other documents the information of which is deemed to be incorporated in this Prospectus. This Prospectus is important and should be read in its entirety.

IMPORTANT INFORMATION

This Prospectus is dated 13 December 2005 and was lodged with ASIC on that date. Neither ASIC nor ASX take responsibility as to the contents of this Prospectus. No Placement Shares will be issued pursuant to this Prospectus later than 13 months after the date of this Prospectus. Within seven days of the date of this Prospectus, the Company will make an application to ASX for the Placement Shares offered pursuant to this Prospectus to be admitted for quotation to ASX.

The offer of Placement Shares made pursuant to this Prospectus is not made in any jurisdiction other than Australia and is not made to persons or places to which, or in which, it would not be lawful to make such an offer of securities. Any persons who come into possession of this Prospectus should seek advice on and comply with any legal restrictions. A copy of this Prospectus is available on the Company's website, www.advancedengine.com. There is no facility for online applications. Any person accessing the electronic version of this Prospectus for the purpose of making an investment in the Company must only access the Prospectus from within Australia. The Corporations Act prohibits any person passing onto another person an Application Form unless it is attached to a hard copy of this Prospectus or it accompanies the complete and unaltered electronic version of this Prospectus.

No person is authorised to give any information or to make any representation in connection with the Placement. Any information or representation in relation to the Placement which is not contained in this Prospectus may not be relied upon as having been authorised by the Company.

Persons who apply for Placement Shares pursuant to this Prospectus are asked to provide personal information to the Company, either directly or through the Share Registry. The Company and the Share Registry collect, hold and use that personal information to assess applications for Placement Shares, to provide facilities and services to shareholders, and to carry out various administrative functions. Access to the information collected may be provided to the Company's agents and service providers and to ASX, ASIC and other regulatory bodies on the basis that they deal with such information in accordance with the relevant privacy laws. If the information requested is not supplied, applications for Placement Shares will not be processed. In accordance with privacy laws, information collected in relation to specific shareholders can be obtained by that shareholder by contacting the Company or the Share Registry.

A number of terms and abbreviations used in this Prospectus have defined meanings which appear in Section 5 of this Prospectus.

PURPOSE OF PROSPECTUS

This Prospectus is for a Placement to nominated parties of Capital Investment Partners. The purpose of this Prospectus is to facilitate trading in the Placement Shares in accordance with Section 707(3) of the Corporations Act 2001 within 12 months after their date of issue.

SHORT FORM PROSPECTUS

This Prospectus is a short form prospectus issued in accordance with Section 712 of the Corporations Act 2001. This means that this Prospectus does not of itself contain all the information that is generally required to be set out in a document of this type. Rather, the Prospectus incorporates by reference information contained in documents that have been lodged with ASIC and ASX.

This Prospectus refers to various information and documents listed in Section 2 of this Prospectus collectively referred to as the "Incorporated Documents". In referring to the Incorporated Documents the Company:

(a) identifies the Incorporated Documents as being relevant to the Placement pursuant to this Prospectus and containing information that will assist investors and their professional advisors in making an informed assessment of :

 (i) the rights and liabilities attaching to the Placement Shares; and
 (ii) the assets and liabilities, financial position and performance, profits and losses and prospects of the Company;

(b) refers investors and their professional advisors to Section 2 of this Prospectus which summarises the information in the Incorporated Documents deemed to be incorporated in this Prospectus;

(c) informs investors and their professional advisers that they are able to obtain a copy of any of the Incorporated Documents, free of charge, by contacting the Company at its registered office during normal business hours within the currency of this Prospectus; and

(d) advises that the information contained in the Incorporated Documents will be primarily of interest to investors and their professional advisers or analysts.

CONTENTS

CONTENTS	Page
1. Details of the Placement	2
2. Information Incorporated by Reference	5
3. Update on Company Activities	7
4. Additional Information	9
5. Defined Terms	11
6. Directors' Authorisation	12
APPLICATION FORM	13

CORPORATE DIRECTORY

Directors

Graham Keys	Non-Executive Chairman
Antony Middleton	Managing Director
William Lee	Non-Executive Director
Thomas Liu	Non-Executive Director
Wei Chang Fang	Non-Executive Director

Company Secretary
Eric Parry

Registered Office
14 Energy Street
Malaga WA 6090
Phone: (08) 9209 6900
Fax: (08) 9209 6999
Website: www.advancedengine.com

Lead Manager for the Placement
Capital Investment Partners Pty Ltd
PO Box Z 5108
St Georges Terrace
Perth WA 6831

Corporate Advisor
Norvest Corporate Pty Ltd
Ground Floor
16 Ord Street
West Perth WA 6005

Share Registry
Computershare Investor Services Pty Limited
Level 2, Reserve Bank Building
45 St George's Terrace
Perth WA 6000
Phone: 1300 557 010
Fax: (08) 9323 2033

Section 1 DETAILS OF THE PLACEMENT

1.1 PLACEMENT

The Company will place up to 11,430,000 Placement Shares at an issue price of 13.5 cents each to raise $1,543,050 before expenses. There is no minimum subscription. The Placement Shares will be offered to nominated parties of Capital Investment Partners. These parties will be "sophisticated investors" as defined in Section 708(8) of the Corporations Act.

Capital Investment Partners will be paid a fee of 6% of the total funds raised under the Placement.

1.2 PLACEMENT TIMETABLE

Date of this Prospectus	13 December 2005
Opening Date	13 December 2005
Closing Date	15 December 2005
Allotment of Placement Shares & Despatch of Holding Statements	15 December 2005
Expected date for Placement Shares to commence trading on ASX	21 December 2005
The above dates may vary without prior notice	

1.3 RIGHTS ATTACHING TO THE PLACEMENT SHARES

The Placement Shares are of the same class and will rank equally in all respects with the existing Shares in the Company. The rights and liabilities attaching to the Placement Shares are set out in Section 4.1 of this Prospectus.

1.4 APPLICATION & ALLOTMENT OF PLACEMENT SHARES

Applications for Placement Shares must be made on the Application Form attached to this Prospectus. The issue price of the Placement Shares is 13.5 cents each. The Company, in conjunction with Capital Investment Partners, may reject any application or allocate fewer Placement Shares than that applied for. Any surplus application monies will be promptly refunded without interest.

The allotment of Placement Shares and dispatch of holding statements will occur as soon as practicable after closing the Placement. It is the responsibility of applicants to determine their allocation prior to trading in the Placement Shares.

1.5 APPLICATION FOR QUOTATION OF THE PLACEMENT SHARES

Application will be made to ASX within 7 days after the date of this Prospectus for the Placement Shares to be admitted for quotation to ASX. If official quotation of the Placement Shares is not granted by ASX within three months after the date of this Prospectus, no Placement Shares will be issued and application monies will be refunded in full without interest in accordance with the Corporations Act. The fact that ASX may grant official quotation to the Placement Shares is not to be taken in any way as an indication by ASX as to the merits of the Company or the Placement Shares.

1.6 USE OF PLACEMENT FUNDS

The Placement will raise net funds of approximately $1,430,000 after estimated costs. These funds will be applied as general working capital for the Company to assist in funding the expanded number of engine development programs in progress, the acceleration of AEC's China based infrastructure and the build up of inventories associated with the initial Chinese and Australian sales and the acquisition of parts for the Company's patented injectors.

1.7 MARKET PRICES OF SHARES ON ASX

The highest and lowest closing market sale prices of Shares on ASX during the period from reinstatement of the Company's Shares to ASX on 15 April 2005 to the date of this Prospectus are:

	Price (cents)	Date
High	22.5	28 July 2005
Low	13	8 June 2005
Last Sale	19	13 December 2005

1.8 PROPOSED DEBT CONVERSION

It is proposed that 698 Capital Asia Pacific Limited, a company related to the Company's major shareholder 698 Capital, will convert the balance of their current secured loan with the Company into Shares at the same price as the Placement ("the Debt Conversion"). At the date of this Prospectus the balance of the loan is approximately $750,000 which would be converted into 5,555,555 Shares at 13.5 cents per Share. The Debt Conversion is subject to prior approval by the Company's shareholders at a meeting proposed to be held early in the 2006 calendar year.

1.9 PROFORMA CAPITAL STRUCTURE

The proforma capital structure of the Company following completion of the Placement, proposed Debt Conversion and proposed issue of Shares to vendors of Gas Torque Engines Pty Ltd (assuming no outstanding options are exercised) is set out in the table below.

	Number of Shares
Shares on issue at the date of this Prospectus	82,534,266
Placement Shares to be issued pursuant to this Prospectus	11,430,000
Total Shares on issue post the Placement	**93,964,266**
Shares to be issued upon proposed Debt Conversion	5,555,555
Shares to be issued upon Gas Torque Engines Pty Ltd settlement	949,367
Total Shares on issue post the Placement and proposed Debt Conversion	100,469,188

The Company also has the following unlisted securities on issue at the date of this Prospectus:

- *5,625,000 options exercisable at 20 cents each on or before 30 June 2008.*
- *1,250,000 options exercisable at 19 cents each on or before 31 December 2008 on the terms and conditions of the Company's Employee Share Option Plan.*
- *20,000,000 co-operation options exercisable at 20 cents each on or before 15 June 2008 subject to the Company's Shares having a 30 day volume weighted average price on ASX of at least 50 cents.*
- *3,000,000 convertible notes convertible into Shares at 40 cents each at any time on or before 31 December 2009. The notes are secured by a first fixed and floating charge over all present and future assets and undertakings of AEC. Interest is paid annually in arrears at a rate of 7.57%.*

The Company's major shareholder, 698 Capital, holds 49,777,158 Shares representing 60.3% of the Company at the date of this Prospectus. Following completion of the Placement, 698 Capital's shareholding will be diluted to 53.0%. Following the proposed settlement of the Gas Torque Engines Pty Ltd acquisition and the proposed Debt Conversion (subject to prior Shareholder approval) 698 Capital's shareholding will increase to 55,332,713 Shares representing 55.1% of the proforma expanded capital at that point in time.

1.10 RISK FACTORS

As with any share investment, there are risks associated with investing in AEC. The principal risks that could effect the financial and market performance of the Company are detailed in Section 5 of the Company's 21 October 2004 Prospectus which is incorporated by reference. The Placement Shares on offer under this Prospectus should be considered speculative. Accordingly, before deciding to invest in the Company, applicants should read this Prospectus in its entirety and should consider all factors in light of their individual circumstances and seek appropriate professional advice.

1.11 DIVIDENDS

The Company does not, at this stage, intend to pay dividends for the year ending 30 June 2006. Any future determination as to the payment of dividends by the Company will be at the discretion of the Directors and will depend on the availability of distributable earnings, the operating results and financial condition of the Company, future capital requirements and general business and other factors considered relevant by the Directors. No assurance in relation to the payment of dividends, or availability of franking credits attaching to dividends, can be given by the Company.

1.12 TAXATION CONSIDERATIONS

It is the responsibility of all persons to satisfy themselves of the particular taxation treatment that applies to them in relation to the Placement, by consulting their own professional tax advisers. Neither the Company nor any of its Directors or officers accepts any liability or responsibility in respect of the taxation consequences of the matters referred to in this Prospectus.

1.13 EXPENSES OF THE PLACEMENT

Expenses associated with the Placement and this Prospectus are estimated to be approximately $115,000 including fees of 6% payable to Capital Investment Partners.

1.14 PROFORMA FINANCIAL POSITION

The table below sets out the proforma financial position of the Company based on the Company's audited financial position as at 30 June 2005 adjusting for the following transactions:

(a) completion of the Placement raising net cash of $1.4 million;
(b) reduction in cash of $1.1 million during the 30 September 2005 quarter through the build-up of inventories, receivables and preproduction costs and payment of liabilities;
(c) completion of the proposed Debt Conversion as detailed in Section 1.8 of this Prospectus; and
(d) proposed settlement of investments in Gas Torque Engines Pty Ltd ($0.3 million), as announced on 8 July 2005, being $150,000 cash and the issue of 949,367 shares at 15.8 cents each and Motive Energy Pty Ltd ($0.4 million), as announced on 19 September 2005, being revenue earned by AEC through engine development services to date to be reinvested in Motive Energy Pty Ltd.

	30 June 2005 $M	**Proforma $M**
Current Assets		
Cash	1.3	1.5
Receivables, Inventories and other assets	1.2	1.5
	2.5	3.0
Current Liabilities		
Payables	(0.5)	(0.3)
698 Capital loan	(0.7)	-
Interest bearing liabilities	(0.5)	(0.3)
Provisions	(0.4)	(0.4)
	(2.1)	(1.0)
Working Capital	***0.4***	***2.0***
Non Current Assets and Liabilities		
Plant and equipment	0.9	0.9
Investments	-	0.7
Pre-production expenses	0.6	1.0
698 Capital Convertible Note	(1.7)	(1.7)
	(0.2)	0.9
NET ASSETS	**0.2**	**2.9**
Equity		
Contributed equity	9.5	11.8
698 Capital Convertible Note	1.3	1.3
Reserves	0.7	0.7
Accumulated losses	(11.3)	(10.9)
TOTAL EQUITY	**0.2**	**2.9**

Section 2 INFORMATION INCORPORATED BY REFERENCE

2.1 CONTINUOUS DISCLOSURE OBLIGATIONS

The Company is a "disclosing entity" for the purposes of Part 1.2A of the Corporations Act. As such, it is subject to regular reporting and disclosure obligations which require it to disclose to ASX any information which it is or becomes aware of concerning the Company and which a reasonable person would expect to have a material effect on the price or value of the securities of the Company.

Trading of the Company's Shares on ASX was reinstated from 15 April 2005. A full list of all continuous disclosure notices issued by the Company since reinstatement is provided below in Section 2.2 of this Prospectus.

2.2 SHORT FORM PROSPECTUS

Section 712 of the Corporations Act permits a prospectus to incorporate the contents of a document or part of a document that has been lodged with ASIC by referring to the document (or part thereof) instead of setting out the information contained in the document in full in the prospectus.

Pursuant to Section 712, the Company has incorporated by reference the following documents which collectively are referred to as the "Incorporated Documents":

(a) all continuous disclosure notices lodged with ASX/ASIC by the Company since the Company's reinstatement on 15 April 2005 (a full list is provided in the table below);

(b) the following specific parts of the Company's prospectus dated 21 October 2004 lodged with ASIC on that date. The 21 October 2004 prospectus was issued to facilitate a $3.5 million capital raising and the reinstatement of the Company to ASX.

- Section 3 Current Operations & Market Opportunities
- Section 5 Business & Investment Risks
- Section 6.1 Material Contracts
- Section 6.2 Litigation/Contingencies
- Section 6.4 Terms of Options
- Section 6.5 Terms of Convertible Note
- Section 6.6 Employee Share Option Plan

(c) the following specific parts of the Company's supplementary prospectus dated 2 March 2005 lodged with ASIC on that date:

- Section 1.3 Arrangements with Key Capital Corporation
- Section 2.1 Terms of the Co-operation Options

The Company states that it will provide a copy of any of the Incorporated Documents, free of charge, to any person who asks for it during the currency of this Prospectus. The Incorporated Documents can also be viewed on the ASX website (www.asx.com.au).

List of Continuous Disclosure Notices lodged by the Company since Reinstatement to ASX

Issue Date (2005)	**Title of Notice as lodged with ASX** ***(additional details in italics provided for further description purposes)***
29/11	Change of Directors Interest Notice *(Graham Keys)*
25/11	Change of Directors Interest Notice *(Antony Middleton)*
25/11	Appendix 3B: New Issue Announcement *(issue of 1,250,000 unlisted options exercisable at 19 cents each on or before 31 December 2008 pursuant to the Company's Employee Share Option Plan)*
25/11	Change in Substantial Holding *(LIM Asia Arbitrage Fund Inc)*
23/11	Results of AGM *(all resolutions passed)*

List of Continuous Disclosure Notices lodged by the Company since Reinstatement to ASX (cont)

Issue Date (2005)	Title of Notice as lodged with ASX *(additional details in italics provided for further description purposes)*
23/11	AGM Company Update November 2005
23/11	AGM Chairman's Address November 2005
23/11	$1.5 million Share Placement *(refers to the Placement under this Prospectus)*
4/11	Change of Company Secretary *(appointment of Eric Parry)*
31/10	Commitments Test Entity - First Quarter Report
25/10	FAW Initial Orders *(order for 20 AEC NGVS kits for FAW's 7.2 litre natural gas engine)*
20/10	Notice of Annual General Meeting *(sets out information in relation to the following resolutions:* *1. Re-election of Graham Keys* *2. Adoption of Remuneration Report* *3. Issue of 400,000 options to Antony Middleton (Director) exercisable at 19 cents each on or before 31 December 2008 pursuant to the Company's Employee Share Option Plan* *4. Modification to the Constitution to enable the Company to procure the disposal of Shares where a Shareholder holds less than a "marketable parcel" of Shares pursuant to the ASX Listing Rules)*
29/9	Annual Report *(sets out detailed information in relation to the Company's operations and management and incorporates the audited financial statements for the year ended 30 June 2005 as follows:* *Directors' Report including detailed review of operations, Directors' details and interests* *Directors' Declaration* *Statements of Financial Performance* *Statements of Financial Position* *Statements of Cash Flows* *Notes to the Financial Statements* *Independent Audit Report* *Auditor's Independence Declaration* *Additional Stock Exchange Information including top 20 Shareholders listing and corporate governance statement)*
27/9	Change of Directors Interest Notice *(Graham Keys)*
19/9	Australian Consortium Alliance Agreement *(engine development program with Motive Energy Pty Ltd to re-configure Isuzu truck engines to use the Company's NGVS as part of a consortium to pursue commercial opportunities for natural gas fuelled vehicles throughout Australia and New Zealand)*
13/9	Preliminary Final Report
3/8	Technical Agreement with Dalian Diesel Engine Co *(commencement of an engine development program for a 3.2 litre natural gas engine with Dalian, a subsidiary of FAW)*
29/7	Commitments Test Entity - Fourth Quarter Report
28/7	Expansion of Asian Alliances *(Memoranda of Understanding signed with Advanced Fuels Technology Pty Ltd and Automotive Corporation of Pakistan to use the Company's NGVS products in vehicle conversion programs throughout Asia, Australia and Pakistan)*
21/7	FAW/AEC Engine Gains Euro 3 Certification *(certification of FAW/AEC 6.6 litre natural gas engine)*
8/7	AEC Settles Royalty Dispute *(settlement of royalty claim by Gas Torque Engines Pty Ltd)*
6/7	Change of Directors Interest Notice *(Antony Middleton)*
1/7	Change of Directors Interest Notice *(Graham Keys)*
30/6	First Sales Order from China - A$1.2 million *(order for AEC NGVS kits for Weichai 9.7 litre and 6.2 litre natural gas engines)*
1/6	Appointment of General Manager - China *(appointment of David Wang)* Change of Company Secretary *(appointment of Anthony Hardwick)*
29/4	Commitments Test Entity - Third Quarter Report
20/4	Change in Substantial Holding *(698 Capital)*

Section 3 UPDATE ON COMPANY ACTIVITIES

The Company advises that detailed information of the Company's operations is set out in the Incorporated Documents, particularly the 2005 Annual Report and specific sections of the 21 October 2004 prospectus. Applicants should refer to Section 2 of this Prospectus for a summary of the information contained in the Incorporated Documents. For information purposes, an update on the Company's activities is provided below.

Overview

The Company was reinstated to ASX on 15 April 2005 following completion of a $3,500,000 capital raising.

AEC currently has nine natural gas engine development programs at varying stages of completion. These development programs incorporate 6.6 litre, 7.1 litre and 3.2 litre engines for First Auto Works (China); 9.7 litre and 6.2 litre engines for Weichai (China); and 3 litre and three versions of the 7.8 litre Isuzu engines for Motive Energy (Australia and New Zealand).

In addition to the engine development programs AEC is completing the development of its fifth generation engine control unit ("ECU") and AEC's own patented natural gas injector. The ECU and injectors are key components of AEC's NGVS.

As well as the development programs AEC continues to earn ongoing revenue from installing the closed loop control enhancement on the 600 Irisbus engines in France and ongoing supply of spare parts and services to Irisbus and Transperth. To date, 570 of the Irisbus engines have been retro-fitted.

AEC (Beijing) Limited, a wholly owned subsidiary of AEC, has been formed in Beijing, China, for procurement and assembly of components in China for AEC's Chinese and external markets and to assist with AEC's First Auto Works and Weichai contracts.

First Auto Works

The 6.6 litre engine has been certified to Euro 3 standard and installed in a specifically built chassis. First Auto Works is currently building the bus body for the chasis. The 6.6 litre engine has successfully completed 500 hours of dynamometer testing, has commenced the 500 hour thermal shock test and was displayed at the Clean Vehicles Fair held in Beijing from 23 to 25 November 2005.

The 3.2 litre engine has been certified to Euro 2 standard. If required, the engine can be modified to achieve Euro 3 with a more efficient catalytic converter. The engine has completed a 100-hour cyclic load test and approximately 10% of the 1000 hour endurance test.

The 7.1 litre engine has been mapped to a standard enabling First Auto Works export to non critical emissions countries.

To date First Auto Works has ordered thirty five AEC NGVS kits, for their natural gas engines, for delivery in December 2005/January 2006.

Weichai

The 9.7 litre engine has been run in, mapped and tested and Weichai engineers have confirmed the engine has achieved the required technical performance. An engine is currently being prepared, in Weifang, for installation in a bus. A third 9.7 litre engine is being prepared for shipment to Jinan, China for emissions testing certification. Weichai displayed the 9.7 litre engine at the Clean Vehicles Fair held in Beijing from 23 to 25 November 2005.

The design work for the 6.2 litre engine is complete and the base engine is being built up in Weifang. The engine will then be air freighted to Perth for installation of AEC's NGVS and dynamometer testing.

To date Weichai has ordered 300 AEC NGVS kits, for their natural gas engines, with the first ten kits to be delivered pre 31 December 2005.

Motive Energy

The three versions of the 7.8 litre engines are at various stages of re-installation in the original equipment manufacturers trucks and undergoing road testing.

Design work and installation of the AEC NGVS kit, on the 3 litre engine, has been completed and is currently being tested.

AEC Patented Gas Injector

A worldwide search by the Australian patent office found the AEC injector to be novel and found no relevant prior art. The final patent specification has now been lodged.

The first samples of the plastic injection-moulded coil assembly have arrived from China and the design and process have proven to be sound. The Company will now apply for ECE R110 certification.

Generation 5 Engine Control Unit (ECU)

The software for the Gen5 ECU will commence intensive testing in approximately 3 months.

Litigation and Contingencies

The court appointed expert, in the litigation between Irisbus, CRMT and AEC, has requested an extension to January 2006 to complete his report. To date, the independent expert has not appointed an electronics expert and is likely to request a further extension, to complete his report, to July 2006.

Section 4 ADDITIONAL INFORMATION

4.1 RIGHTS AND LIABILITIES OF THE PLACEMENT SHARES

The Placement Shares issued pursuant to this Prospectus will rank equally with the Company's existing Shares. Accordingly, the following summary of the more significant rights and liabilities attaching to the Shares applies equally to the Placement Shares. This summary is not exhaustive. Full details of provisions relating to rights attaching to the Shares are contained in the Corporations Act, ASX Listing Rules and the Company's Constitution, a copy of which is available for inspection at the Company's registered office during normal business hours.

Ranking of Shares

At the date of this Prospectus, all Shares are of the same class and rank equally in all respects.

Voting Rights

Subject to any special rights or restrictions (at present there are none), at any meeting each member present in person or by proxy has one vote on a show of hands, and on a poll has one vote for each share held.

Dividend Rights

Subject to any special rights (at present there are none), any dividends that may be declared by the Company are payable on all Shares in proportion to the amount paid up.

Variation of Rights

The rights attaching to the Shares may only be varied by the consent in writing of the holders of three-quarters of the Shares, or with the sanction of a special resolution passed at a general meeting.

Transfer of Shares

Subject to the Company's Constitution, the Corporations Act or any other applicable laws of Australia and ASX Listing Rules, the Shares are freely transferable. The Directors may refuse to register a transfer of Shares only in limited circumstances, such as where the Company has a lien on those Shares.

General Meetings

Each shareholder is entitled to receive notice of, and to attend and vote at, general meetings of the Company and to receive all notices, accounts and other documents required to be furnished to shareholders under the Company's Constitution, the Corporations Act and ASX Listing Rules.

Rights on Winding Up

If the Company is wound up, the liquidator may, with the sanction of a special resolution:

- divide among the shareholders the whole or any part of the Company's property; and
- determine how the division is to be carried out as between the shareholders.

Subject to any special rights (at present there are none), any surplus assets on a winding up are to be distributed to shareholders in proportion to the number of Shares held by them irrespective of the amounts paid or credited as paid.

4.2 DISCLOSURE OF INTERESTS, FEES & BENEFITS OF DIRECTORS AND ADVISERS

Other than as set out below or elsewhere in this Prospectus (including the Incorporated Documents), no:

(a) Director; or

(b) expert, promoter, underwriter or any other person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;

has or has had, within two years before lodgement of this Prospectus with ASIC:

(a) any interest in the formation or promotion of the Company; or in any property acquired or proposed to be acquired by the Company in connection with its formation or promotion or in connection with the Placement; or in the Placement; and

(b) no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any of the above persons, as an inducement to become, or to qualify as a Director, or otherwise, for services rendered by such persons in connection with the formation or promotion of the Company or the Placement.

Directors' Interests in Shares and Options

Set out in the table below are details of the Directors' interests in the Shares and Options of the Company as at the date of this Prospectus:

Directors	Notes	Existing Shares	Existing Options
Graham Keys	(a)	1,560,000	1,450,000
Antony Middleton	(b)	1,437,650	900,000
Thomas Liu	(c)	49,777,158	-
William Lee	(c)	49,777,158	-
Wei Chang Fang		-	-

(a) The options are exercisable at 20 cents each at any time on or before 30 June 2008. 1,200,000 of the options are held by Norvest Corporate Pty Ltd of which Mr Keys is a director and majority shareholder.

(b) 500,000 options are exercisable at 20 cents each at any time on or before 30 June 2008 and 400,000 options are exercisable at 19 cents each at any time on or before 31 December 2008.

(c) The shareholding is held by 698 Capital of which Messrs Liu and Lee are directors.

Loans from Directors to the Company

Mr Middleton and Seibu Pty Limited (a company of which Mr Keys is a Director) each made a loan to the Company of $60,000 on 8 December 2005 on arm's length terms. The loans are unsecured and attract interest at 15% per annum. The loans are short term and expected to be repaid by 31 December 2005 or earlier with the total estimated interest being less than $2,000.

Interests of Advisers

Capital Investment Partners is the Lead Manager to the Placement. Total estimated fees payable to Capital Investment Partners in relation to this Prospectus are approximately $93,000, being 6% of the funds to be raised under the Placement. The Company has entered into an arrangement with Capital Investment Partners on 27 September 2005 to provide ongoing advice to the Company for which it will be paid a fixed retainer of $5,000 per month for an initial period of six months with an option to extend for a further six months by mutual agreement. This retainer can be terminated by either party at any time by written notice. These amounts are exclusive of any goods and services tax.

Norvest Corporate Pty Ltd has acted as corporate advisor to the Company in relation to the Placement. Estimated fees payable to Norvest Corporate Pty Ltd for work in relation to this Prospectus are approximately $15,000 exclusive of any goods and services tax.

Horwath Audit (WA) Pty Ltd has not conducted any work in relation to this Prospectus apart from providing its consent below and therefore no fees are payable to Horwath Audit (WA) Pty Ltd.

4.3 CONSENTS

The following written consents have been given in accordance with the Corporations Act with respect to the issue of this Prospectus in both paper and electronic form. Other than as disclosed below, none of the parties referred to below have authorised or caused the issue of this Prospectus and take no responsibility for any part of this Prospectus.

Capital Investment Partners has given, and has not before lodgement of this Prospectus withdrawn, its written consent to be named as the Lead Manager to the Placement in the form and context in which it is named, together with all references to it in this Prospectus.

Norvest Corporate Pty Ltd has given, and has not before lodgement of this Prospectus withdrawn, its written consent to be named as Corporate Advisor in the form and context in which it is named, together with all references to it in this Prospectus.

Computershare Investor Services Pty Limited has given, and has not before lodgement of this Prospectus withdrawn, its written consent to be named in this Prospectus as the Share Registry in the form and context in which it is named, together with all references to it in this Prospectus.

Horwath Audit (WA) Pty Ltd has given, and has not before lodgement of this Prospectus withdrawn, its written consent to the incorporation by reference into this Prospectus of the Independent Audit Report and Auditor's Independence Declaration in relation to the audited 30 June 2005 financial statements in the form and context in which they are included, together with all references to those reports.

Section 5 DEFINED TERMS

The following definitions apply throughout this Prospectus.

AEC or Company	Advanced Engine Components Limited ABN 67 009 081 770
ASIC	Australian Securities and Investments Commission.
ASX	Australian Stock Exchange Limited ABN 98 008 624 691.
Capital Investment Partners	Capital Investment Partners Pty Ltd ABN 37 110 468 589.
Debt Conversion	The proposed conversion of the current secured loan from 698 Capital Asia Pacific Limited (a related party of 698 Capital) of approximately $750,000 at 13.5 cents per Share into 5,555,555 Shares.
Director	A Director of Advanced Engine Components Limited.
FAW or First Auto Works	First Automobile Group Corporation (formerly China First Auto Works Group Corporation), a company with its legal address in the People's Republic of China and related entities.
Incorporated Documents	Various information and documents listed in Section 2 of this Prospectus and incorporated by reference into this Prospectus pursuant to Section 712 of the Corporations Act.
Irisbus	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, now wholly owned by Iveco.
Listing Rules	The Listing Rules of the ASX.
Motive Energy	Motive Energy Pty Ltd ACN 109 233 374.
NGVS	Natural gas vehicle system.
Placement	The offer of 11,430,000 Placement Shares at 13.5 cents each raising $1,543,050 pursuant to this Prospectus.
Placement Shares	The Shares comprised in the Placement.
Prospectus	This prospectus dated 13 December 2005.
Share	Fully paid ordinary share in Advanced Engine Components Limited.
Shareholder	A holder of Shares in Advanced Engine Components Limited.
Weichai	Weichai Power Co. Ltd., a listed Hong Kong company, and a party to the Weifang Weichai Peterson Gas Engine Co. Ltd joint venture with Peterson Holdings Company Limited.
$ or A$	Australian dollars. All amounts in this Prospectus are in Australian dollars unless stated.
698 Capital	698 Capital International Limited ARBN 105 459 130, a company incorporated in the British Virgin Islands and related parties.

Section 6 DIRECTORS' AUTHORISATION

This Prospectus is issued by the Company and its issue has been authorised by a resolution of the Directors.

In accordance with section 720 of the Corporations Act, each Director has consented to the lodgement of this Prospectus with ASIC and has not withdrawn that consent.

Signed for and on behalf of Advanced Engine Components Limited

Graham Keys
Chairman

Advanced Engine Components Limited
ACN 009 081 770

APPLICATION FORM

This Application Form relates to the Placement of up to 11,430,000 Placement Shares at 13.5 cents each by Advanced Engine Components Limited pursuant to the Prospectus dated 13 December 2005.

DETAILS OF THE APPLICANT(S)

(Please complete the application form in BLOCK letters)

Dr/Mr/Mrs/Miss/Ms...
Insert Full Names

Dr/Mr/Mrs/Miss/Ms...
Insert Full Names

Company Name...ACN:....................................

Address...

City.......................................State.....................................P/Code.......................

CHESS HIN ....

Tax File No. ....

The entity detailed above, wishes to subscribe for.................................. Placement Shares.

I/we tender herewith the sum of $.........................being 13.5 cents per Placement Share applied for.

Contact Name .... Daytime Contact No. ....
Contact E-mail Address ....

Return of the completed Application Form will constitute your offer to subscribe for Placement Shares and acceptance of the following declarations:

- I/We have received personally a copy of the Prospectus dated 13 December 2005 accompanying this Application Form.
- I/We agree to be bound by the Constitution of Advanced Engine Components Limited.
- I/We authorise the Directors to complete or amend this Application Form where necessary to correct any errors or omissions.