Appendix 4E

Preliminary final report

1. Company details

Name of entity

Advanced Engine Components Limited

ABN or equivalent company reference	Financial year ended ('current period')	Period ended ('previous period'):
067 009 081 770	30 June 2007	30 June 2006

2. Results for announcement to the market

$A'000's

2.1	Revenues from operations	up	20%	to	3,077
2.2	Profit (loss) from operations after tax attributable to members	down	126%	to	(3,131)
2.3	Net profit (loss) for the period attributable to members	down	126%	to	(3,131)

2.4	**Dividends**	Amount per security	Franked amount per security
	Final dividend proposed	Nil	Nil
	Interim dividend	Nil	Nil

2.5 the	+Record date for determining entitlements to final dividend.	N/A

REVIEW OF OPERATIONS

Throughout the 2007 financial year Advanced Engine Components Limited ("ACE") significantly progressed the company's sales of ACE natural gas vehicle system ("NGVS") kits to its major Chinese original equipment manufacturer ("OEM") customers. Namely, First Auto Works (FAW), Weichai, Dongfeng and Xilian. ACE has eighteen different versions of natural gas engines, developed or in final developmental stages, with these four OEM's. As the OEM's develop their markets the sales of ACE NGVS kits will expand in line with forecast expectations. Overall FAW, Weichai and Xilian have over 70 trucks and buses undergoing various trials with a wide range of customers. Each of these end customers has the capability of purchasing 1,000 engines or more per annum once the final buy decision is made. During the 2007 financial year ACE sold over 450 NGVS kits to its Chinese customers.

Late in the 2007 financial year ACE commenced direct sales of natural gas engines to vehicle manufacturers. This was principally a market driven decision. ACE had been approached by the manufacturers, particularly in Thailand, Bangladesh and Pakistan, to facilitate their purchase of NG engines from China. These requests have been driven by ACE's technical capabilities, assistance in the installation and commissioning stage and after sales support. The direct sale of NG engines has not required ACE to add any new skills, broaden its marketing effort or find any additional working capital. In the last quarter of the 2007 financial year ACE sold over 60 NG engines to Thailand.

ACE's sale of spare parts also continued, particularly to France, throughout the 2007 financial year.

The addition of direct base and/or completed engine sales is a natural evolution of ACE's overall marketing strategy. Direct engine sales expand the sales of ACE NGVS kits, earn ACE an additional margin and expand ACE's future sale of spare parts.

FINANCIAL REVIEW

ACE's financial result for the 2007 financial year reflects the early stages of commercialisation of the ACE NGVS throughout China and Asia Pacific region.

The loss for the financial year was $3.1m compared to a loss of $1.4m in the 2006 financial year. Sales for the year were $3.1m (2006: $2.6m) with a gross profit of $0.7m (2006: $1.5m). The lower margin reflects the changing geographical nature and maturity of ACE's markets. In 2007 sales to China were $2.1m (2006: $0.2 m), France $0.8m (2006: $2.0m) and Australia $0.1m (2006: $0.4m).

The 2007 sales to China were principally NGVS kits and in the last quarter included NG engines to Thailand. The 2006 sales to France and Australia principally relate to the sale of spare parts and service. The expanding sale of NGVS kits and NG engines create future expanding sales of spare parts and services to these new markets. Sales of spares and service to France and Australia are mature markets that will continue for the next 20 years.

The margins for China will improve as the markets expand. The margins for the 2007 financial year are on limited sales relative to the marketing, development, freight, staff, travel and purchasing costs incurred in this early stage of the market.

Results for the 2007 year were also affected by:

- the first full year of administrative costs for ACE in China ($0.23m);
- eighteen development programmes resulting in additional development costs expensed ($0.2m);
- first full year of amortization of successfully completed development programmes ($0.13m);
- foreign exchange currency losses ($0.18m); and
- write off of costs incurred on the investment in Motive Energy Pty Ltd ($0.3m).

ACE's major shareholder continues to provide financial support, as required, to assist the Company through these early marketing stages.

SUMMARY

The demand for NG vehicles continues to expand through as a result of:

- the price of oil;
- security of energy supplies; and
- environmental concerns.

The 2007 financial year has been a year of ACE clearly moving from the development and commercialization phase to the marketing and sales phase. Developments completed and costs incurred in 2007 will benefit ACE's immediate future as a leading supplier of NGVS kits, components and engines to the booming heavy duty NG vehicle markets.

31 August 2007

3. Consolidated income statement

	Current period - $A'000	Previous corresponding period - $A'000
Revenues from operations	3,077	2,571
Other income	239	88
Expenses from ordinary activities, excluding borrowing costs (refer note 3.1)	(6,012)	(3,702)
Borrowing costs	(435)	(347)
Loss before income tax	**(3,131)**	**(1,390)**
Income tax (expense)/refund	-	4
Net loss for the year	**(3,131)**	**(1,386)**
Net loss attributable to minority interests	-	-
Net loss attributable to members	**(3,131)**	**(1,386)**

Notes to the consolidated income statement

3.1 Expenses from ordinary activities (excluding borrowing costs)

Details of "Expenses from ordinary activities" by nature	Current period $A'000	Previous corresponding period $A'000
Cost of sales	(2,328)	(1,108)
Employee benefits expense	(2,698)	(1,877)
Depreciation and amortisation expense	(350)	(213)
Other expenses from ordinary activities	(636)	(504)
Total Expenses	**(6,012)**	**(3,702)**

3.2 Other disclosures relating to the income statement

	Current period - $A'000	Previous corresponding period - $A'000
Net gain/(loss) on the disposal of assets:		
- property, plant and equipment	44	-
Net revenue/(expense) since the beginning of the reporting period resulting from deductions from the carrying amounts of assets :		
- amortisation of non-current assets	(133)	(19)
- depreciation of non-current assets	(217)	(194)
- bad and doubtful debts	-	5

3.3 Revision of Accounting Estimates

Details of Revision of Accounting Estimates in accordance with AASB 118

4 Condensed consolidated balance sheet	At end of current period $A'000	As shown in last annual report $A'000
Current assets		
Cash and cash equivalents	611	1,088
Trade and other receivables	923	1,505
Inventories	1,465	599
Total current assets	**2,999**	**3,192**
Non-current assets		
Property, plant and equipment (net)	783	938
Intangibles assets (net)	2,834	1,892
Total non-current assets	**3,617**	**2,830**
Total assets	**6,616**	**6,022**
Current liabilities		
Trade and other payables	1,131	890
Interest-bearing loans and borrowings	1,127	1,154
Provisions	183	166
Total current liabilities	**2,441**	**2,210**
Non-current liabilities		
Interest-bearing loans and borrowings	3,731	3,746
Provisions	11	18
Total non-current liabilities	**3,742**	**3,764**
Total liabilities	**6,183**	**5,974**
Net assets	**433**	**48**
Equity		
Contributed equity	15,258	11,744
Reserves	1,039	1,037
Accumulated losses	(15,864)	(12,733)
Equity attributable to members of the parent entity	**433**	**48**
Minority interests in controlled entities	-	-
Total equity	**433**	**48**

5 Condensed consolidated statement of cash flows

	Current period $A'000	Previous corresponding period - $A'000
Cash flows related to operating activities		
Receipts from customers (inclusive of gst)	4,180	2,028
Payments to suppliers and employees (inclusive of gst)	(7,136)	(3,413)
Interest received	22	32
Interest and other costs of finance paid	(99)	(59)
Income taxes paid	-	5
Net operating cash flows	**(3,033)**	**(1,407)**
Cash flows related to investing activities		
Payment for purchases of property, plant and equipment	(62)	(245)
Payment for purchases of controlled entity, net of cash acquired	-	(150)
Payment for capitalised development costs	(853)	(920)
Net investing cash flows	**(915)**	**(1,315)**
Cash flows related to financing activities		
Proceeds from issues of shares	3,725	1,543
Transaction costs associated with issue of shares	(211)	(124)
Proceeds from borrowings	-	1,500
Proceeds from term loans	477	110
Repayments of term loans	(443)	(400)
Payments of finance lease liabilities	(77)	(127)
Net financing cash flows	**3,471**	**2,502**
Net increase (decrease) in cash held	**(477)**	**(220)**
Cash at beginning of period	1,088	1,308
Cash at end of period	**611**	**1,088**

5.1 Non-cash financing and investing activities

Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows are as follows.

During the financial year 2006 the consolidated entity: (i) financed insurance premiums with a fair value of $366,177 (ii) converted $750,000 debt with 698 Capital Asia Pacific Limited to equity at $0.135 per share (iii) issued shares on the acquisition of Gas Torque Engines Pty Ltd with a fair value of $150,000 During the financial year 2007 the consolidated entity: (i) Insurance premiums with a fair value of $287,062 were financed over twelve months from May 2007. (ii) Development costs of $521,451 were transferred from Trade Receivables. These are not reflected in the Statement of Cash Flows.

5.2 Reconciliation of cash

Reconciliation of cash at the end of the period (as shown in the condensed consolidated statement of cash flows) to the related items in the accounts is as follows.	Current period $A'000	Previous corresponding period - $A'000
Cash	-	-
Cash on hand and at bank	611	1,088
Total cash at end of period	**611**	**1,088**

5.3 Reconciliation of profit from ordinary activities after income tax to net cash inflow from operating activities

	Current period $A'000	Previous corresponding period - $A'000
Net Loss	(3,131)	(1,386)
Depreciation and amortisation	350	213
Amortisation of convertible note equity	-	35
Deemed loss of goodwill on disposal of investment	300	-
Share options expensed	(55)	86
Unrealised foreign exchange (gain)/loss	58	(6)
(Increase) decrease in assets:		
(Increase) decrease in trade and other receivables	60	(347)
(Increase) decrease in inventories	(866)	(228)
Increase (decrease) in liabilities:		
Increase (decrease) in trade and other payables	241	225
Increase (decrease) in provisions	10	1
Net cash (used in) from operating activities	**(3,033)**	**(1,407)**

6 Segment Information

Geographic segments

The Group's primary segment reporting format is geographic segment as the Group's risks and rates of return are affected predominantly by relative performance of product in the geographic segment. The Group's geographic segments are determined based on the relative performance of the segment. The following table presents revenue, expenditure and certain asset information regarding geographic segments for the year ended 30 June 2006.

Primary Reporting Geographic Segments 30 June 2007	France $A'000	Australia $A'000	China $A'000	Consolidated $A'000
Revenue				
Sales to external customers	779	144	2,154	3,077
Inter-segment sales	-	1,343	71	1,414
Inter-segment sales elimination	-	(1,343)	(71)	(1,414)
Segment revenue	**779**	**144**	**2,154**	**3,077**
Non-segment revenue:				
Interest & Other revenue	-	238	1	239
Loss before tax & finance costs	579	(2,818)	(457)	(2,696)
Finance Costs	-	(435)	-	(435)
Net profit/(loss) for the year	**579**	**(3,253)**	**(457)**	**(3,131)**
Assets and liabilities				
Segment Assets	-	5,359	1,257	6,616
Segment liabilities	-	(6,195)	12	(6,183)
Other segment information				
Capital expenditure	-	(898)	(17)	(915)
Depreciation	-	(201)	(16)	(217)
Amortisation	-	(133)	-	(133)
Unrealised exchange gains	-	(58)	-	(58)
Amount set aside for provisions	-	(47)	-	(47)
Deemed loss of goodwill on disposal of investment		(300)		(300)
Total non cash expenses	-	(739)	-	(755)

7 Dividends

7.1 Individual dividends per security

		Date dividend is payable	Amount per security	Franked amount per security at 30% tax	Amount per security of foreign source dividend
	Final dividend: Current year	N/A	N/A	N/A	N/A
	Previous year	N/A	N/A	N/A	N/A
	Interim dividend: Current year	N/A	N/A	N/A	N/A
	Previous year	N/A	N/A	N/A	N/A

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

	Current year	Previous year
+Ordinary securities	N/A	N/A

8 Dividend Reinvestment Plans

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

The last date(s) for receipt of election notices for the +dividend or distribution plans	N/A

Any other disclosures in relation to dividends (distributions).

9 Consolidated retained profits

	Current period - $A'000	Previous corresponding period - $A'000
Retained profits at the beginning of the financial period	(12,733)	(11,347)
Net profit attributable to members	(3,131)	(1,386)
Net transfers from/(to) reserves	-	-
Net effect of changes in accounting policies	-	-
Share capital reduction permanently lost	-	-
Retained profits at end of financial period	**(15,864)**	**(12,733)**

10 NTA backing

	Current period ($)	Previous corresponding Period ($)
Net tangible asset backing per +ordinary security	(0.019)	(0.018)

11 Control over entities

11.1 Control gained over entities

Name of entity (or group of entities)	N/A
Date control gained	N/A
Contribution of such entities to the reporting entity's profit/ (loss) from ordinary activities during the period (where material).	Nil
Profit(loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) for the whole of the previous corresponding period.	Nil

11.2 Loss of control over entities

Name of entity (or group of entities)	Gas Torque Engines Pty Ltd
Date control lost	20 August 2006
Contribution of such entities to the reporting entity's profit/ (loss) from ordinary activities during the period (where material).	Nil
Consolidated profit/(loss) from ordinary activities of the controlled entity (or group of entities) whilst controlled during the whole of the previous corresponding period (where material).	Nil

12 Earnings per share

	Current period ($)	Previous corresponding Period ($)
Net Loss attributable to ordinary equity holders of the parent	(3,131,445)	(1,386,454)
Weighted average number of ordinary shares for basic earnings per share	112,743,598	89,960,019
Effect of dilution:		
Share options	2,807,801	236,407
Weighted average no of ordinary shares adjusted for the effect of dilution.	115,551,399	90,196,426
Loss per Share		
- Basic loss per share	($0.028)	($0.015)
- Diluted loss per share	($0.027)	($0.015)

13 Details of associates and joint venture entities

Name of associate/joint venture	Reporting entity's percentage holding	
	Current Period	Previous corresponding period
	N/A	N/A

Group's aggregate share of associates' and joint venture entities' profits/(losses) :	Current period $A'000	Previous corresponding period - $A'000
Profit/(loss) from ordinary activities before tax	N/A	N/A
Income tax on ordinary activities	N/A	N/A
Profit/(loss) from ordinary activities after tax	N/A	N/A
Extraordinary items net of tax	N/A	N/A
Net profit/(loss)	N/A	N/A
Adjustments	N/A	N/A
Share of net profit/(loss) of associates and joint venture entities	N/A	N/A

14 Significant Information

Details of any other significant information needed by an investor to make an informed assessment of the entity's financial performance and financial position.
None

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

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

16. If the accounts have not yet been audited or subject to review and are likely to be subject to dispute or qualification, details are described below

17. If the accounts have been audited or subject to review and are subject to dispute or qualification, details are described below

Sign here: .... (Managing Director)

Date: 31 August 2007

Print name: A Middleton