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Market Announcements Office
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By: e-lodgement (ASX code ACE)

SALE OF NON CHINA BUSINESS ASSETS

Throughout calendar 2011 the Board of Advanced Engine Components Limited ("ACE") have considered a number of alternative strategic steps to restructure the operations and activities of ACE.

As a result of these deliberations and subsequent negotiations, in December 2011, ACE signed a non binding, confidential term sheet to sell certain assets to Westport Innovations Inc or a subsidiary of that company. Since that date, negotiations and due diligence have continued to the stage where ACE and Westport Innovations (Australia) Pty Ltd ("the Purchaser") have today signed a Business Sale Agreement ("BSA").

Pursuant to the BSA:

- (a) Other than certain excluded assets the Purchaser will acquire all of ACE's non China business assets. This will include all Australian inventory, plant & equipment, intellectual property and non China contracts;
- (b) The non China customer contracts include India, France and Australia;
- (c) The Purchaser will offer employment, on a continuity of service basis, to selected Australian ACE employees involved in the non China business and/or R&D of new and existing developments;
- (d) The Purchaser will enter into a non exclusive licensing arrangement with ACE which enables ACE to:
 - (i) continue to manufacture, service and sell the ACE natural gas vehicle system ("NGVS") in China;
 - (ii) retain all existing and develop new ACE China contracts;
 - (iii) retain all existing co-operation agreements with China groups;
 - (iv) enter into sub-licensing arrangements with other China based groups subject to prior approval of the Purchaser; and
 - (v) have the ability to access former ACE employees and technology on a fee for service basis;
- (e) ACE will retain all existing receivables, China inventory and China plant and equipment;





- (f) The Purchaser will assume ACE's Australian premises lease; and
- (g) The consideration of \$1.45 million will consist of:
 - (i) cash;
 - (ii) the assumption of certain employee entitlements for all transferring ACE employees; and
 - (iii) the repayment by the Purchaser of certain bridging finance debts of ACE and the forgiveness of the bridging finance debt owing by AEC to the Purchaser.

A number of conditions precedent must be satisfied to enable completion of the BSA. These include but are not limited to:

- (a) Finalisation of Purchaser due diligence;
- (b) Consents and release of security from all secured and unsecured lenders;
- (c) Consents from customers to assignment of non China contracts to the Purchaser; and
- (d) All necessary regulatory approvals or waivers.

Completion is expected to take place on or before 31 March 2012.

ACE's position following the transaction

- (a) ACE retains its China business which includes all China inventory, plant & equipment, technical know-how and contracts;
- (b) ACE is released from existing non China contracts without penalty for early termination;
- (c) ACE significantly reduces Australian overheads for rent, insurance, employee costs, etc;
- (d) Ongoing salary costs are reduced without requiring termination payments to all staff;
- (e) ACE retains access, on a fee for service basis, to existing technology, employees and supply of product; and
- (f) Consideration will satisfy all outstanding employee entitlements and significantly reduce third party liabilities.

The China NGVS Market for ACE

- (a) China is ACE's major market;
- (b) ACE is currently a major NGVS supplier to the China medium to heavy duty engine market;
- (c) ACE's NGVS has a number of competitive advantages in the China market including fuel efficiency, cost, emission standards and flexibility;
- (d) China's current medium to heavy duty natural gas engine market is 80,000 per year and growing at 30% pa;
- (e) ACE has ongoing trials, existing contracts and engine development programmes with some of China's largest automotive industry companies;
- (f) ACE has over 1,000 existing vehicles using the ACE NGVS in China and China export markets requiring increasing volumes of spare parts each year;
- (g) ACE is implementing the reduction of size and overhead cost of its Beijing office by outsourcing the accounting and compliance requirements;



- (h) ACE will continue to employ a staff of 10 to 15 technical/engineering personnel in China with a small administrative office in Australia;
- (i) ACE retains approximately A\$1 million in inventory and existing plant & equipment, at Dalian in China, to enable ongoing production and assembly;
- (j) ACE has an established list of suppliers in China and elsewhere for all required parts.

Proforma Balance Sheet

For information purposes only, set out below is a summary of ACE's financial position at 31 December 2010, the last financial statements lodged, and the Proforma Financial Position at that date assuming completion of the BSA.

	Audit Reviewed Financial Position 31 Dec 2010 \$000	Proforma Financial Position \$000
Cash & cash equivalents	355	1,805*
Trade & other receivables	1,456	1,456
Inventories	1,480	605**
Investments	40	40
Property, plant & equipment	288	10
Intangible assets	3,696	601
Total assets	7,315	4,517
Trade & other payables	2,133	2,133
Borrowings	10,054	10,054
Provisions	458	458
Total liabilities	12,645	12,645
Surplus liabilities	(5,330)	(8,128)
Contributed equity	21,194	21,194
Reserves	1,144	1,144
Accumulated losses	(27,668)	(30,466)
Deficiency in Equity	(5,330)	(8,128)

* Cash & cash equivalents includes the \$1.45m consideration. These funds will be utilised in payment of employee entitlements and bridging finance loans including those that have arisen subsequent to 31 December 2010.

** The Proforma Financial Position does not reflect ACE's trading position or movements in assets, since 31 December 2010, other than as a result of the BSA.

Future Restructure of ACE Financial Position

Completion of the BSA will enable transfer or payment of all outstanding employee entitlements, a significant reduction in ACE's third party liabilities and assist in bringing all required compliance matters up to date.

The majority of liabilities are monies owed to related parties. The major shareholders and related party lenders/creditors are supportive of the transaction.

The ACE Board has in principle agreement with all related party lenders/creditors that if the BSA proceeds, and ACE concentrates on the China market, they will work with the Board to restructure ACE's debt position so as to enable the voluntary suspension of ACE shares to be lifted.



Summary and Re-instatement of Share Trading

In the Directors opinion, the decision to sell the non China assets, reduce overheads, clear all outstanding employee entitlements, reduce third party liabilities and concentrate on the China business is in the best interests of all ACE shareholders.

The sale will enable ACE to restructure its remaining debt position and look toward having the voluntary suspension of its share trading lifted.

Reinstatement of ACE's shares for ASX trading requires ACE to:

- (a) restructure its existing debt position and demonstrate that ACE has an adequate financial condition satisfactory to ASX; and
- (b) bring all outstanding ASX and ASIC regulatory compliance requirements, such as the 2011 Annual Report and Annual General Meeting, up to date.

A general meeting will be required to bring regulatory requirements up to date and possibly to approve components of the debt restructure. As a result, it is unlikely ACE will be in a position to seek re-instatement of its shares for trading prior to 30 June 2012.

For further information email shares@advancedengine.com