

Advanced Engine Components Limited

ABN 67 009 081 770

Financial Report for the Half-Year Ended
31 December 2003

Financial Report For The Half-Year Ended 31 December 2003

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Advanced Engine Components Limited

Directors' Report

The directors of Advanced Engine Components Limited submit herewith the financial report for the half-year ended 31 December 2003. In order to comply with the provisions of the Corporations Act 2001, the directors' report as follows:

Directors

The names of the directors of the Company during this financial year or since the end of the half-year are:

Current Directors

Mr Antony Middleton	Appointed 1997
Mr George Long	Appointed a Non-executive Director on 9 May 2003.
Mr Graham Keys	Appointed a Non-executive Director on 9 May 2003.
Dr C Daniel Wu	Appointed a Non-executive Director on 7 August 2003.
Mr Arthur Wang	Appointed a Non-executive Director on 7 August 2003.
Mr Thomas Liu	Appointed a Non-executive Director on 7 August 2003.
Mr William Lee	Appointed an Executive Director and Chief Financial Officer on 7 August 2003.

Former Directors

Mr Dean Van Drasek	Appointed 9 May 2003. Resigned on the 7 August 2003.
Mr Michael Nacson	Appointed 9 May 2003. Resigned on the 7 August 2003.

Advanced Engine Components Limited

Directors' Report

Review of Operations

During the period under review, the Company continued to develop and progress the commercialisation of its core technology being the AEC Natural Gas Vehicle System (NGVS).

The Company continued to work on its R&D enhancement of its current NGVS technology specifically with the provisions of a Closed Loop (lambda sensor) Management System on Renault engines for Irisbus in France. The Company continued to supply NGVS production kits and spare parts to Irisbus. Phase 4 of its contract with the Australian Greenhouse Office for the conversion of 25 DaimlerChrysler natural gas buses continued and is scheduled for completion in February 2004. The Company continues to progress a Cooperation Agreement with First Auto Works (FAW) of China to develop a natural gas engine during 2004.

In January 2004 the Company was successful in achieving Euro 4 exhaust emission certification for the Closed Loop (lambda sensor) enhancement of the AEC NGVS at EMPA the Swiss Federal Laboratories for Materials Testing and Research in Zurich.

The Company, in terms of its policy to focus on its core business, disposed of its Bullet Supercar Division and its shares in its wholly owned subsidiary Sprintex Australasia Pty Ltd.

Results of Operations

The consolidated loss after tax for the half year attributable to the members of Advanced Engine Components Limited was \$614 398 (2002: \$ 2,190,538).

Results by Segment

Business Segments	Natural Gas Engine System \$	High Performance Engine Products \$	Bullet Supercars \$	Unallocated \$	Consolidated \$
31 December 2003					
Segment revenue	1,998,468	96,696	215,690	-	2,310,854
Segment profit/(loss)	(604,660)	122,974	39,888	(172,600)	(614,398)
31 December 2002					
Segment revenue	2,614,420	22,191	136,259	-	2,772,870
Segment loss	(452,411)	(139,074)	(1,059,783)	(539,270)	(2,190,538)

Signed in accordance with a resolution of the Board of Directors



A Middleton
Director

Dated this 25th day of February 2004

**Independent review report to the members of
Advanced Engine Components Limited****Scope***The financial report and directors' responsibility*

The financial report comprises the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Advance Engine Components Limited, for the half-year ended 31 December 2003.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia and the Corporations Act 2001, so as to present a view which is consistent with our understanding of the entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the company to lodge the financial report with the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing and Assurance Standards applicable to review engagements. A review is limited primarily to inquiries of the company's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Advanced Engine Components Limited is not in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the entity's financial position as at 31 December 2003 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

Inherent uncertainty regarding continuation as a going concern

Without qualification to the review opinion expressed above, attention is drawn to the following matter. As a result of the matters detailed in Note 1 (b), there is significant uncertainty whether the Company will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements.

Dated the 26th day of February 2004.

HORWATH PERTH
Chartered Accountants

HORWATH PERTH



GLYN O'BRIEN
Partner

Advanced Engine Components Limited

Directors' Declaration

In the opinion of the directors of Advanced Engine Components Limited:

1. the financial statements and notes set out on pages 7 to 13, are in accordance with the Corporations Act 2001, including:
 - (a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2003 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and
 - (b) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements.
2. there are reasonable grounds, for the reasons set out in Note 1 (b), to believe that the company will be able to pay its debts as and when they become due and payable.

Dated at Perth this 25th day of February 2004

Signed in accordance with a resolution of the directors:



A Middleton

Director

Advanced Engine Components Limited

Consolidated Statement of Financial Performance for the Half-Year Ended 31 December 2003

	Half-Year Ended 31 December 2003 \$	Half-Year Ended 31 December 2002 \$
Revenue from operating activities	2,155,020	2,641,670
Other revenue from ordinary operations	155,834	131,200
Total revenue from ordinary activities	2,310,854	2,772,870
Cost of sales	(1,132,162)	(1,488,914)
Distribution expenses	(71,113)	(162,427)
Marketing expenses	(8,348)	(391,986)
Occupancy expenses	(117,094)	(99,295)
Corporate expenses	(256,271)	(215,251)
Administration expenses	(463,295)	(1,197,245)
Research and development expenses	(704,369)	(806,942)
Borrowing costs	(172,600)	(174,815)
Other expenses from ordinary activities	-	(426,533)
Loss From Ordinary Activities Before Income Tax Expense	(614,398)	(2,190,538)
Income tax expense relating to ordinary activities	-	-
Net Loss	(614,398)	(2,190,538)
Total Changes in equity attributable to members other than those resulting from transactions with owners	(614,398)	(2,190,538)
Basic Loss per Share	(0.004)	(0.014)

See the accompanying notes to the financial statements.

Dilutive Loss per Share has not been disclosed, as the Company does not have any potentially dilutive ordinary shares on issue.

Advanced Engine Components Limited

Consolidated Statement of Financial Position as at 31 December 2003

	Note	31 December 2003	31 December 2002
		\$	\$
Current Assets			
Cash assets		651,734	11,626
Receivables		1,760,894	1,370,955
Inventories		274,643	754,493
Other		21,217	13,012
Total Current Assets		2,708,488	2,150,086
Non-Current Assets			
Plant and equipment		285,765	511,428
Other financial assets		-	-
Total Non-Current Assets		285,765	511,428
Total Assets		2,994,253	2,661,514
Current Liabilities			
Payables		2,124,680	2,701,131
Interest-bearing liabilities		4,896,155	183,136
Provisions		715,809	463,944
Other		146,904	830,692
Total Current Liabilities		7,883,548	4,178,903
Non-Current Liabilities			
Payables		3,322,056	3,322,056
Interest-bearing liabilities		297,576	442,380
Provisions		43,672	37,981
Total Non-Current Liabilities		3,663,304	3,802,417
Total Liabilities		11,546,852	7,981,320
Net Liabilities		(8,552,599)	(5,319,806)
Equity			
Contributed equity	3	25,809,199	25,464,199
Reserves		-	-
Accumulated losses	5	(34,361,798)	(30,784,005)
Total Deficiency in Equity		(8,552,599)	(5,319,806)

See the accompanying notes to the financial statements.

Advanced Engine Components Limited

Statement of Cash Flows For the Half-Year Ended 31 December 2003

	Half-Year Ended 31 December 2003	Half-Year Ended 31 December 2002
	\$ Inflows (Outflows)	\$ Inflows (Outflows)
<i>Cash Flows From Operating Activities</i>		
Receipts from customers	1,104,525	3,195,096
Government grants received	-	-
Payments to suppliers and employees	(3,278,700)	(3,049,915)
Interest received	2,879	636
Borrowing costs paid	(172,600)	(35,544)
Net cash provided by / (used in) operating activities	(2,343,896)	110,273
<i>Cash Flows From Investing Activities</i>		
Proceeds on sale of plant and equipment	333,000	130,564
Payment for plant and equipment	(42,120)	(30,764)
Payments for intellectual property	-	-
Net cash provided by / (used in) investing activities	290,880	99,800
<i>Cash Flows From Financing Activities</i>		
Proceeds from issue of equity securities	-	-
Payment for share issue costs	-	-
Proceeds from finance leases	-	-
Proceeds from borrowings from parent entity	2,006,324	294,000
Advance to former parent entity	-	(400,000)
Lease payments	(69,035)	(100,922)
Net cash provided by / (used in) financing activities	1,937,289	(206,922)
<i>Net(Decrease) Increase In Cash Held</i>	115,727	3,151
<i>Cash At Beginning Of The Financial Year</i>	767,461	8,475
<i>Cash At The End Of The Half-Year</i>	651,734	11,626

See the accompanying notes to the financial statements.

Advanced Engine Components Limited

Notes to the Financial Statements For the Half-Year Ended 31 December 2003

1. Statement of Significant Accounting Policies

(a) Basis of Preparation

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001, AASB 1029 *Interim Financial Reporting* the recognition and measurement requirements of applicable AASB Standards and other authoritative announcements of the Australian Accounting Standards Board and Urgent Issues Group consensus views. This half-year financial report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the annual financial report for the year ended 30 June 2003 and announcements to the market made by the Company during the period to the date of this report in accordance with the continuous disclosure obligations under the Corporations Act 2001.

The half-year financial report has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or current valuations of noncurrent assets.

The half-yearly financial report does not include full note disclosure of the type normally included in an annual report.

(b) Going Concern

The consolidated entity incurred a loss for the period of \$614,398 (2002: \$2,190,538). At 31 December 2003 the consolidated entity had a deficiency in working capital of \$1,228,945 (2002: \$2,028,817), and a deficiency in shareholders' funds of \$8,552,801 (2002: \$5,319,806).

At 30 June 2003 the consolidated entity had a deficiency in working capital of \$1,832,787, and a deficiency in shareholders' funds of \$6,930,143.

Since the end of the half-year the Company has received \$650,000 by way of loan facility from Commonwealth Equity Ltd. This is due for repayment by 30 June 2004.

In August 2003, 698 Capital International Ltd ("698 Capital") took control of the group by way of takeover bid. As at 31 December 2003, the Company owed 698 Capital \$3,322,056 in loans. 698 Capital have resolved to provide financial support, in circumstances that will enable the Company to be able to meet its debts as and when they fall due, at least until 31 December 2004. On the basis of this support, the Directors consider it appropriate that the financial statements be prepared on a going concern basis.

(c) Significant Accounting Policies

The accounting policies have been consistently applied by each entity in the consolidated entity and are consistent with those adopted and disclosed in the annual financial report for the year ended 30 June 2003.

(d) Discrete Reporting Periods

For the purposes of preparing the half-year financial report, each half-year period is a discrete reporting period.

2. Segment reporting

Primary Reporting Business Segments	Natural Gas Engine System \$	High Performance Engine Products \$	Bullet Supercars \$	Unallocated \$	Consolidated \$
31 December 2003					
Segment revenue	1,998,468	96,696	215,690	-	2,310,854
Segment profit/(loss)	(604,660)	122,974	39,888	(172,600)	(614,398)
31 December 2002					
Segment revenue	2,614,420	22,191	136,259	-	2,772,870
Segment loss	(452,411)	(139,074)	(1,059,783)	(539,270)	(2,190,538)

Advanced Engine Components Limited

Notes to the Financial Statements For the Half-Year Ended 31 December 2003

3. Contributed Equity

	31 December 2003	31 December 2002
	\$	\$
Contributed Equity		
169,342,036 fully paid ordinary shares (2002: 161,841,511)	25,809,199	25,464,199

Material Movements of contributed equity during the period

There were no movements in contributed equity in this 6 month period

4. Options

Opening balance	-	55,975,115
Less: Exercised during the period	-	-
Less: Expired during the period	-	(55,975,115)
Closing balance	-	-

There are no options currently in issue.

5. Reconciliation of Accumulated Losses

	31 December 2003	31 December 2002
	\$	\$
Accumulated losses at the beginning of the financial year	33,747,400	28,945,717
Net loss attributable to members	614,398	2,190,538
Transfer from option reserve on expiration	-	(352,250)
Accumulated losses at the end of the half year	34,361,798	30,784,005

6. Non Cash Financing & Investing Activities

None for the period under review.

Advanced Engine Components Limited

Notes to the Financial Statements For the Half-Year Ended 31 December 2003

7. Economic Dependency

The majority of the Company's forecast sales revenue over the next twelve months from the date of this report, is expected to be derived from its contract for the supply of NGVS kits and spare parts to Irisbus, Renault and CRMT in France.

8. Contingencies

The Company is engaged in a number of disputes with former employees and associates of the consolidated entity. In all cases, the Company will vigorously defend each claim and is of the belief that no further material provision is required for these matters.

Subject to an original Sale of Assets Agreement from July 1992, the Company purchased intellectual property, providing for 2.5% royalty on gross receipts from any sale of product or licensing or sale of technology for a specific patent application. The vendor has made claims in respect of the Company's current contracts in Perth and France with respect to the royalty agreement. An expert engaged by AEC has concluded that the technology encapsulated in the sale of assets agreement is not in current use in the NGVS system. The Company therefore denies any liability in relation to the claims and intends to vigorously defend any future claim. At the date of this report, no official proceedings with respect to this matter have been commenced.

New Tel Limited (New Tel) had a lease with the landlord for the premises encompassing the site occupied by the Company at Herdsman Western Australia. The Company occupied the premises under its Management Services Agreement with New Tel. During the period of administration of New Tel, the landlord and AEC agreed to a short-term occupation while it secured alternative premises for a period of three months. A dispute is currently being pursued by the landlord for a claim of approximately \$67 500 regarding the Company's occupation. An amount of \$28 638 has been provided in the accounts in respect of this claim. The Company will continue to seek to resolve the matter.

A former director of the Company is seeking a compensation payment from the Company of \$150,000. The Company denies any liability and intends to vigorously defend any claim in respect of this dispute. At the date of this report, no official proceedings with respect to this matter have been commenced.

Advanced Engine Components Limited

Notes to the Financial Statements For the Half-Year Ended 31 December 2003

9. Subsequent Events

On 5th February 2004 the Company announced its intention to undergo a balance sheet restructure and recapitalisation to enable the Company to apply for its shares to be reinstated on ASX prior to 30th June 2004. This will also enable the Company to benefit from the large number of significant international opportunities that have been presented, particularly in China, but also to be positioned to move more quickly into India.

The proposed restructure and recapitalisation will involve:

- (i) a consolidation of existing shares on a 1 for 10 basis;
- (ii) a conversion of \$2.15 million existing debt to equity at 20 cents per share;
- (iii) a placement of 15 million shares at 20 cents per share, to raise \$3 million;
- (iv) a subsequent underwritten 1 for 2 rights issue to raise \$2.5 million at 30 cents per share; and
- (v) the conversion of a further \$3.3 million of debt at 30 cents per share.

It is proposed that steps (i) to (iii) will be completed, subject to shareholder approval, in March 2004. Steps (iv) and (v) will be completed in April 2004. The Company will then have approximately \$4.9 million (less costs) in working capital and shareholders funds of \$2.4 million. The Company should then comply with the ASX Listing Rules that require a company to maintain a sufficient level of operations and be in a financial condition (including operating results) adequate to enable the Company shares to be re-instated on the ASX.

Bullet Performance Products Pty Ltd, the purchaser of the Bullet division in August 2003, advised AEC that there had been a technical breach to the Sale of Business Agreement in respect of obtaining certification pursuant to ADR 79/00. As a result, on the 9th of January 2004 AEC received notification that they were in fact terminating the Sale Agreement. On 25 February 2004, AEC accepted the cancellation notice after due consideration, and entered into a memorandum of understanding for the sale of the business to Weilian Pty Ltd A.C.N. 105 731 342 or its nominee. In terms of the agreement, the entire business including the intellectual property, trade marks, inventory and work-in-progress will be sold to Weilian Pty Ltd. AEC and Weilian Pty Ltd both agree to utilise their respective best endeavours to settle the sale and to transfer the business assets on 13 March 2004 and the agreed sales price of \$625 000 is payable in cash on the same day. The directors believe that this agreement is on substantially better terms and conditions than those of the cancelled sale, which is reflected in the financial report for the half-year ended 31 December 2003 above.