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31 January 2008

Company Announcements Office
The Australian Stock Exchange Limited
By: e-lodgement (ASX code ACE)

December 2007 - Quarterly Activities Summary

Throughout the 2007 calendar year Advanced Engine Components Ltd ("ACE") has continued to build international momentum in terms of sales and demand for ACE patented natural gas vehicle systems ("NGVS"); spare parts and consumables; and completed compressed natural gas ("CNG") and liquefied natural gas ("LNG") engines.

ACE's average monthly sales have increased from approximately \$180,000 per month for the first nine months of the 2007 calendar year to an average of approximately \$450,000 per month in the December 2007 quarter. In addition, the gross margin for each of the first two quarters of the 2008 financial year has been consistent with ACE's 40% target.

To 31 January 2008 orders have been received, for March 2008 quarter delivery, exceeding \$1 million.

The improved sales levels and margins achieved for the December Quarter have resulted in a 50% improvement in receipts from customers and an 11% reduction in net operating cash outflows.

The above sales figures exclude the potential of the **Iran** contract and **Thailand's** Bangkok Mass Transit Authority contract referred to in the September 2007 Quarterly Activities Summary. Deliveries under these contracts, although still pending, have been delayed due to political circumstances in the respective countries.

Further activity highlights for the December 2007 quarter include:

- ACE has overseen the installation and commissioning of 76 buses with FAW/ACE 7.1 litre engines for the Xianjiang Province of **China**.
- ACE's joint venture partner in **Thailand**, Monika Motors, purchased 40 CNG engines from ACE in December 2007 and has a further 16 CNG engines due for delivery in February 2008. The end user is Union Bus Company of **Thailand**.
- A logistics company has satisfactorily completed road trials of two demonstration trucks, incorporating CNG engines with ACE NGVS, in **Thailand**. An order for 50 trucks for delivery in 2008 is expected early in the 2008 calendar year.



- A bus incorporating the Dongfeng Nanchong Automobile Co Ltd /ACE 230 hp CNG engine was commissioned in **Indonesia** in December 2007. Orders and a 30% deposit were received by ACE for delivery of a further 32 CNG engines to **Indonesia** incorporating ACE's NGVS systems. The engines have been delivered in January 2008.
- ACE's Chinese based marketing team are currently in the process of finalising and/or negotiating a wide range of contracts in the **Asia region** that have the potential of requiring a minimum 1,500 CNG and LNG engines, incorporating ACE's NGVS, for delivery throughout 2008.
- ACE sent an interim development report on the Eroom Hyundai LPG conversion of 2.4 litre light duty trucks in **Korea** to Vialle Alternative Fuel Systems BV ("Vialle") of Holland. When the development phase is complete, ACE will supply components and engineering support to Vialle for the Korean market. The target market is in excess of 600,000 vehicles.
- ACE, together with Vialle Alternative Fuel Systems Private Limited of **India**, has negotiated development and system supply agreements with Force Motors ("Force") and Escort Motors ("Escort") of **India**. Force and Escort are Indian original equipment manufacturers of vehicles. The Force agreement is for Force CNG engines for small buses and special vehicles such as ambulances. The Escort agreement is for Escort CNG engines for agricultural tractors.
- The two Volvo prime movers, incorporating the ACE NGVS, continue to perform well on road trials in **Malaysia**.
- The first Isuzu LNG powered truck, using ACE's NGVS kit, was refuelled at **Australia's** first multi fleet LNG refuelling station in Kewdale, WA. The truck is the first of eleven ordered for urban deliveries throughout Perth.
- The Court in Lyon, **France** instructed CRMT to pay ACE outstanding debts of \$130,000 and return to ACE NGVS kits with a resale value of \$87,000. The monies and NGVS kits had been withheld by CRMT awaiting the outcome of an ongoing dispute between CRMT and ACE's French customer Irisbus. Sales of spare parts and consumables to Irisbus in **France** continue to generate around \$250,000 in sales to ACE each quarter.
- ACE NGVS and affiliated engines were displayed at the Thailand Bus and Truck 2007 exhibition from 8 to 10 November 2007 and the Asia Pacific Natural Gas Vehicle Association (ANGVA) conference and exhibition in Thailand from 26 to 29 November 2007.
- On 22 November 2007 ACE completed a rights issue raising \$2.3 million to assist in funding required working capital for expanding sales.

International concerns about the price of oil, peak oil and global warming continue to drive the demand and interest in natural gas as the alternative fuel of choice in all countries.

For further information please contact Tony Middleton, Managing Director, on (08) 9209 6900; or email shares@advancedengine.com.

Appendix 4C

Quarterly report for entities admitted on the basis of commitments

Introduced 31/3/2000. Amended 30/9/2001

Name of entity

ADVANCED ENGINE COMPONENTS LIMITED

ABN

67 009 081 770

Quarter ended ("current quarter")

31 December 2007

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from customers	823	1,381
1.2 Payments for		
(a) staff costs	(223)	(455)
(b) advertising and marketing	(60)	(64)
(c) research and development	(156)	(265)
(d) leased assets	-	-
(e) other working capital	(795)	(1,608)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	8	10
1.5 Interest and other costs of finance paid	(144)	(161)
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
Net operating cash flows	(547)	(1,162)

+ See chapter 19 for defined terms.

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

	Current quarter \$A'000	Year to date (6 months) \$A'000
1.8 Net operating cash flows (carried forward)	(547)	(1,162)
Cash flows related to investing activities		
1.9 Payment for acquisition of:		
(a) businesses (item 5)	-	-
(b) equity investments	(70)	(70)
(c) intellectual property	-	-
(d) physical non-current assets	-	(5)
(e) other non-current assets	(225)	(505)
1.10 Proceeds from disposal of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	-	-
(e) other non-current assets	-	-
1.11 Loans to other entities	-	-
1.12 Loans repaid by other entities	-	-
1.13 Other (provide details if material)	-	-
Net investing cash flows	(295)	(580)
1.14 Total operating and investing cash flows	(842)	(1,742)
Cash flows related to financing activities		
1.15 Proceeds from issues of shares, options, etc.	2,294	2,294
1.16 Proceeds from sale of forfeited shares	-	-
1.17 Proceeds from borrowings (item 3.3)	350	1,000
1.18 Repayment of borrowings	(1,123)	(1,220)
1.19 Dividends paid	-	-
1.20 Costs associated with issue of shares	(7)	(37)
Net financing cash flows	1,514	2,037
Net increase (decrease) in cash held	672	295
1.21 Cash at beginning of quarter/year to date	234	611
1.22 Exchange rate adjustments to item 1.20	-	-
1.23 Cash at end of quarter	906	906

+ See chapter 19 for defined terms.

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	65
1.25	Aggregate amount of loans to the parties included in item 1.11	-
1.26	Explanation necessary for an understanding of the transactions Salary payments to the executive director of the Company of \$37,000. Payments to Seibu Pty Ltd for director fee from 1 Jun 06 to 30 Jun 07 of \$27,500.	

Non-cash financing and investing activities

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

- 2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

N/A

Financing facilities available

Add notes as necessary for an understanding of the position. (See AASB 1026 paragraph 12.2).

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities	-	-
3.2	Credit standby arrangements	-	-

+ See chapter 19 for defined terms.

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter \$A'000	Previous quarter \$A'000
4.1	Cash on hand and at bank	776	234
4.2	Deposits at call	-	-
4.3	Bank overdraft	-	-
4.4	Other (Our lawyer received the amount from CRMT on 5 th Dec 2007)	130	-
Total: cash at end of quarter (item 1.23)		906	234


Acquisitions and disposals of business entities

		Acquisitions (Item 1.9(a))	Disposals (Item 1.10(a))
5.1	Name of entity	-	-
5.2	Place of incorporation or registration	-	-
5.3	Consideration for acquisition or disposal	-	-
5.4	Total net assets	-	-
5.5	Nature of business	-	-

Compliance statement

- 1 This statement has been prepared under accounting policies, which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:



 Managing Director

Date: 31 January 2008

Print name: Antony Middleton

+ See chapter 19 for defined terms.

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The definitions in, and provisions of, *AASB 1026: Statement of Cash Flows* apply to this report except for the paragraphs of the Standard set out below.
 - 6.2 - reconciliation of cash flows arising from operating activities to operating profit or loss
 - 9.2 - itemised disclosure relating to acquisitions
 - 9.4 - itemised disclosure relating to disposals
 - 12.1(a) - policy for classification of cash items
 - 12.3 - disclosure of restrictions on use of cash
 - 13.1 - comparative information
3. **Accounting Standards.** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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