

# Appendix 4E

## Preliminary final report

### 1. Company details

Name of entity

Advanced Engine Components Limited

ABN or equivalent company reference

067 009 081 770

Financial year ended ('current period')

30 June 2009

Period ended ('previous period'):

30 June 2008

### 2. Results for announcement to the market

\$A'000's

2.1	Revenues from operations	Up	3%	to	4,827
2.2	Loss from operations after tax attributable to members	Up	37%	to	(2,841)
2.3	Net loss for the period attributable to members	Up	37%	to	(2,841)
2.4	<b>Dividends</b>		Amount per security		Franked amount per security
	Final dividend proposed		Nil		Nil
	Interim dividend		Nil		Nil
2.5	+Record date for determining entitlements to the final dividend.	N/A			

## REVIEW OF OPERATIONS

The 2009 financial year has been a very challenging year for AEC.

The previous financial year (2008) recorded a 52% increase in sales revenue over the preceding year (2007). The current 2009 financial year was expected to continue and improve on that sales trend.

The first quarter of the 2009 financial year was very positive. Sales were 226% higher than the corresponding period of the prior year with strong forward orders and interest. On the back of this sales growth and interest, AEC completed an \$873,000 capital raising, at 20 cents per share, and put in place a \$2.0 million sales financing facility. These debt and equity raisings were expected to provide the Company with sufficient working capital through to a positive cash flow position.

In the second quarter, the impact of the global financial crisis on the economies and stock markets around the world began to affect AEC's markets. The price of oil, a critical decision making factor in purchasing natural gas vehicles ("NGVs"), fell from an average US\$136.44 per barrel in June/July 2008 to an average US\$48.24 in November/December 2008. Demand slowed, deliveries were deferred and customer payments delayed.

Despite the impact of the global financial crisis on the final nine months of the financial year, AEC recorded an increase in year on year sales for the fifth financial year in a row. In addition, the Company advanced further in its mission to be the leading supplier of alternative fuel engine systems and components to the Asia Pacific Region through innovation and quality. These advances include:

- (a) signing of an engine development and ten year purchase agreement with Tata Motors Limited ("TML") of India;
- (b) signing a strategic alliance agreement with Norinco Equipment Co Ltd ("Norinco Equipment") of China for the marketing and sale of NGVs and products in the Chinese domestic and export markets;
- (c) doubling the number of NGVs using the AEC NGVS in the Asia Pacific Region;
- (d) a 65% increase in recurring sales of spares and consumables around the world;
- (e) commencement of commercial production of the more cost competitive and efficient fifth generation AEC electronic control unit ("ECU"); and
- (f) strengthening of the AEC China management team.

Some of the key aspects of our operations in the year under review were:

### Existing Markets

**China** continues to be the major market for AEC. For the 2009 financial year, China domestic sales represented 63% of AEC's total sales compared to 40% for 2008.

By 30 June 2009, there were over 370 vehicles, in more than 27 Chinese cities, using the AEC natural gas vehicle system ("NGVS").

Through the last nine months of the 2009 financial year AEC faced major negotiating difficulties with what had previously been AEC's major customer in China. These difficulties have seen ongoing delays in payment to AEC, of amounts outstanding, and a current ceasing of all orders from that customer.

However, the period has also seen renewed interest in sale of NGV engines throughout China by Deutz (Dalian) Engine Co Ltd ("DDE"). DDE is a subsidiary of China First Auto Works Group Corporation ("FAW") one of the largest vehicle manufacturers in China. In past years, AEC and DDE had collaborated in a number of engine developments and DDE had purchased, and for some years held, a large stock of AEC NGVS. This stockholding is now close to fully utilised.

As part of DDE's renewed interest DDE and AEC collaborated, in the second half of FY2009, on development of a hybrid natural gas -electric bus using the AEC NGVS. Buses using the hybrid system have been successfully trialled in route service and DDE's commercial sales of the buses have now commenced.

The run down of DDE's NGVS stock, through increasing sales of DDE LNG and CNG engines; the availability of AEC's ECU5; and the development of the hybrid system, will result in increasing AEC NGVS sales to DDE throughout the 2010 financial year and beyond.

Sales of DDE, Aussen and Xilian engines, incorporating AEC's NGVS, together with the Norinco Equipment alliance will ensure China remains a major sales market for AEC NGVS and components in 2010.

**Thailand and Indonesia** purchases of natural gas engines from AEC, as a percentage of AEC sales, were considerably lower in 2009 (5%) than 2008 (37%). The Thai NGV market was impacted by the low oil price and political instability. Delays in the Indonesian market were more related to lack of natural gas infrastructure. Interest and activity increased in both countries in the latter part of the 2009 financial year. Sales orders recommenced subsequent to year end and will continue throughout the 2010 financial year.

**France** continues to be a stable market for AEC with ongoing sales of spares and consumables. Sales for 2009 were up 63% to \$1.4 million. Sales to France represented 30% of total sales compared to 19% for 2008.

**Australian** domestic sales remain relatively low at 2% in 2009 compared to 4% in 2008. These sales relate to services, spares and consumables, mainly to Perth Public Transport Authority, for existing bus engines converted to AEC's NGVS. In addition, AEC has two vehicles with Isuzu engines (190hp and 220hp) converted to CNG and a vehicle with an Isuzu 255hp engine converted to LNG, operating commercially in Australia. A further vehicle, with an Isuzu 295hp engine, is in the final stages of development. Although Australia is unlikely to be a major market, Australian sales of the AEC NGVS for the Isuzu 295hp engine will increase with completion of development prior to 31 December 2009.

#### Future Markets

**India** is recognized as the most exciting NGV market in the world. It is currently the 5th largest NGV market in the world with 28 city projects in process, involving 450,000 vehicles and 373 natural gas refueling stations. Over 220 Indian cities are planned for CNG development involving more than 12,000 km of networked pipeline. This pipeline network is in addition to the Iran-Pakistan-India pipeline and the Turkmenistan-Afghanistan-Pakistan-India pipeline. By the end of calendar 2009 gas availability in India will have doubled and by 2012 India's CNG pipeline will connect 15 states and reach a population of 160 million people.

Legislation in India requires all buses and trucks, servicing the major cities, to comply with Euro 4 emission standards by 1 April 2010. This requirement increases to Euro 5 by 1 April 2014. These increasingly stringent standards are a major competitive advantage to AEC's technology which already has the capability of Euro 5.

In October 2008, AEC signed a letter of intent to enter into a 10 year purchase agreement with TML in India. In December 2008 AEC and TML executed the purchase agreement. TML is India's largest automobile company, the world's fourth largest truck manufacturer and the world's second largest bus manufacturer.

AEC's development of naturally aspirated and turbo charged natural gas versions of TML's four and six cylinder engines is well advanced with two reference engines having been sent to AEC in Australia. Development is expected to be completed, with start of commercial production, in the first half of calendar 2010.

In March 2009, AEC entered into a strategic alliance agreement with Norinco Equipment in **China**. Norinco Equipment, a subsidiary of the State Owned Enterprise China North Industries Group Corporation, is involved in the development and export of CNG vehicles, engines and related natural gas products from China. AEC, in conjunction with Norinco Equipment, has already commenced discussions with parties in **Egypt, Iran, Myanmar** and **Thailand**. The Board of AEC believe the links with Norinco Equipment will be very important to AEC's future development in China and many other countries around the world.

## FINANCIAL REVIEW

### Income Statement

Although low, at 3%, the 2009 financial year was AEC's fifth year in a row of year on year growth in sales. The 2008 sales were 52% higher than 2007; 2007 was 20% higher than 2006; and 2006 was 45% higher than 2005.

The \$2.8 million loss for the financial year was 37% higher than the \$2.1 million loss for 2008.

Despite the increased loss, the 2009 financial year showed the resilience of the AEC business model to a downturn in economic cycles. Sales of NGVS kits increased to 39% (2008: 29%) of total sales, mainly in the first quarter; sales of engines decreased to 7% (2008: 37%); but most importantly, sales of spares and consumables increased from \$1.5 million (33%) in 2008 to \$2.6 million (53%) in 2009. Sales of spares and consumables will increase exponentially each year, regardless of economic conditions, with every new vehicle utilising the AEC NGVS that becomes operational.

The Gross Margin was down for 2009 (32%) compared to 2008 (40%). Margins on NGVS were consistent in both periods; margins on engines were well down, due to different markets, but with little impact on the overall margin due to the small dollar value; and margins on spares and consumables were up.

The main reason for the drop in the margin related to warranty claims in the China market. The high level of these claims reflects the many different geographical and climatic conditions in which the AEC NGVS operates throughout China; the customer's lack of knowledge for the different operating characteristics of NGVs; and the need in some cases, particularly LNG vehicles, for AEC to alter the operating capabilities of the NGVS. AEC is confident, although issues will always arise in new markets, that 2010 will see warranty claims return to normal acceptable levels.

Earnings before interest, tax, depreciation and amortisation ("EBITDA") was a loss of \$1.46 million in 2009 compared to a loss of \$1.2 million in 2008. The variation in the EBITDA loss is materially the same as the variation in the warranty claim figure.

The 2009 EBITDA also benefited from foreign exchange gains of \$590,000, included as Other Income, and a saving in Australian employment and other overhead costs. However, these gains and savings were more than offset by additional China overheads, principally marketing related, for employee costs; travel and external testing. These additional costs will benefit AEC throughout 2010 and beyond.

Borrowing costs were \$353,000 higher in 2009 than 2008. This reflects the difficulty in obtaining finance in the current economic climate. However, half of this increase relates to the book value of share options issued as part of the refinancing. This willingness of financiers, both external and related, to accept equity as part of their financing consideration reflects their long term belief in AEC's future.

## **Balance Sheet**

As at 30 June 2009 AEC's working capital, excluding short term interest bearing loans and provision for long service leave, is \$1.6 million higher than as at 30 June 2008. This improvement is principally the result of a \$2.0 million increase in trade receivables. Unfortunately, this increase is the result of delayed payments rather than increased sales. AEC continues to negotiate to reduce the amounts owing by the major customer. The reduction is occurring slowly and will continue through the 2010 financial year.

Delays in trade receivables have principally been funded by short term interest bearing loans from related parties. In addition, a short term borrowing of \$750,000 from a third party has been refinanced and assigned to related parties. The other major increase in short term borrowings relates to the reclassification of the convertible note, held by a related party, being reclassified from a long term borrowing to a short term borrowing pursuant to the terms of that note.

As at 30 June 2009, other than low value leasing and premium funding loans, all interest bearing secured borrowings are from parties related to the Directors of AEC.

## **SUMMARY**

The 2009 financial year, although starting well, has been a very challenging year for AEC. The main focus, because of international economic conditions, has been on cash flow and funding of delayed orders, deliveries and receipts from customers.

However, added to Government stimulus packages beneficial to AEC, the key business drivers for AEC remain positive:

- the current price of oil above US\$70 per barrel;
- security of energy concerns; and
- environmental concerns.

As a result, the usage of compressed natural gas (CNG), liquefied natural gas (LNG), bio methane, hydrogen blended with CNG (HCNG) and natural gas – electric hybrid systems, all of which require the AEC NGVS or equivalent, are increasingly being accepted as the preferred alternative fuel of choice for Governments and heavy duty vehicle users around the world.

Together with the key business drivers, AEC's newly established relationships with TML and Norinco Equipment are expected to provide positive results for AEC in the 2010 financial year.

While the key focus in the short term must remain on cash flow and funding, AEC is seeing renewed interest and demand particularly in China, Thailand, Indonesia and India.

**Tony Middleton**  
**Managing Director**  
**31 August 2009**

### 3. Consolidated income statement

	Current period - \$A'000	Previous corresponding period - \$A'000
Revenues from operations	4,827	4,673
Other income	811	213
Share of loss of joint venture	-	(29)
Expenses from ordinary activities, excluding borrowing costs (refer note 3.1)	(7,677)	(6,481)
Borrowing costs	(802)	(449)
<b>Loss before income tax</b>	<b>(2,841)</b>	<b>(2,073)</b>
Income tax expense	-	-
<b>Net loss for the period</b>	<b>(2,841)</b>	<b>(2,073)</b>
Net loss attributable to minority interests	-	-
<b>Net loss attributable to members</b>	<b>(2,841)</b>	<b>(2,073)</b>

#### 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	(3,283)	(2,827)
Employee benefits expense	(2,666)	(2,509)
Depreciation and amortisation expense	(532)	(424)
Impairment	(51)	-
Other expenses from ordinary activities	(1,145)	(721)
<b>Total Expenses</b>	<b>(7,677)</b>	<b>(6,481)</b>

For personal use only

### 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	1	-
Net revenue/(expense) since the beginning of the reporting period resulting from deductions from the carrying amounts of assets :		
- amortisation of non-current assets	(341)	(219)
- depreciation of non-current assets	(191)	(205)
- Provision for doubtful debts written back	-	130
- Impairment	(51)	-

### 3.3 Revision of Accounting Estimates

Details of Revision of Accounting Estimates in accordance with AASB 118
None

For personal use only

<b>4 Condensed consolidated balance sheet</b>	At end of current period \$A'000	As shown in last annual report \$A'000
<b>Current assets</b>		
Cash and cash equivalents	280	169
Trade and other receivables	4,108	2,062
Inventories	1,605	1,499
<b>Total current assets</b>	<b>5,993</b>	<b>3,730</b>
<b>Non-current assets</b>		
Investments accounted for using the equity method	40	40
Property, plant and equipment (net)	419	600
Intangibles assets (net)	4,233	3,587
<b>Total non-current assets</b>	<b>4,692</b>	<b>4,227</b>
<b>Total assets</b>	<b>10,685</b>	<b>7,957</b>
<b>Current liabilities</b>		
Trade and other payables	2,644	1,964
Interest-bearing loans and borrowings	8,822	2,067
Provisions	324	257
<b>Total current liabilities</b>	<b>11,790</b>	<b>4,288</b>
<b>Non-current liabilities</b>		
Interest-bearing loans and borrowings	-	2,975
<b>Total non-current liabilities</b>	<b>-</b>	<b>2,975</b>
<b>Total liabilities</b>	<b>11,790</b>	<b>7,263</b>
<b>Net assets / (liabilities)</b>	<b>(1,105)</b>	<b>694</b>
<b>Equity</b>		
Contributed equity	18,366	17,482
Reserves	1,307	1,149
Accumulated losses	(20,778)	(17,937)
<b>Equity attributable to members of the parent entity</b>	<b>(1,105)</b>	<b>694</b>
Minority interests in controlled entities	-	-
<b>Total equity</b>	<b>(1,105)</b>	<b>694</b>

## 5 Condensed consolidated statement of cash flows

	Current period \$A'000	Previous corresponding period - \$A'000
<b>Cash flows related to operating activities</b>		
Receipts from customers (inclusive of gst)	4,661	3,534
Payments to suppliers and employees (inclusive of gst)	(6,446)	(5,140)
Interest received	4	19
Interest and other costs of finance paid	(652)	(91)
<b>Net operating cash flows</b>	<b>(2,433)</b>	<b>(1,678)</b>
<b>Cash flows related to investing activities</b>		
Payment for purchases of property, plant and equipment	(7)	(21)
Payment for purchases of joint venture, net of cash acquired	-	(70)
Payment for capitalised development costs	(1,103)	(1,081)
<b>Net investing cash flows</b>	<b>(1,110)</b>	<b>(1,172)</b>
<b>Cash flows related to financing activities</b>		
Proceeds from issues of shares	946	2,300
Transaction costs associated with issue of shares	(62)	(76)
Proceeds from borrowings	4,273	1,666
Repayments of borrowings	(1,503)	(1,482)
<b>Net financing cash flows</b>	<b>3,654</b>	<b>2,408</b>
<b>Net increase (decrease) in cash held</b>	<b>111</b>	<b>(442)</b>
Cash at beginning of period	169	611
<b>Cash at end of period</b>	<b>280</b>	<b>169</b>

### 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 2009:

- (i) Insurance premiums with a fair value of \$134,922 (2008: \$214,174) were financed.
- (ii) A loan of \$750,000 from CIM Special Situations Fund Limited was assigned to a syndicate lead by Norvest Corporate Pty Ltd, a company related to a Director of AEC.
- (iii) The Company facilitated a US\$700,000 (AUD1,010,393) loan from an unrelated company, CCM Global Limited, to the Thailand joint venture company, Monika AEC Limited. The loan was delivered directly to Monika AEC Limited and did not involve cash flow through ACE. ACE has recorded an asset and a liability of US\$700,000 (AUD1,010,393) in the consolidated accounts. For facilitating the loan ACE is entitled to a margin on interest payable.

## 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	280	169
<b>Total cash at end of period</b>	<b>280</b>	<b>169</b>

## 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	(2,841)	(2,073)
Depreciation and amortisation	532	424
Government grant received for capitalised development costs	116	109
Provision for doubtful debt written back	-	(130)
Cost of share based payment	166	88
Share of loss of joint venture	-	29
Unrealised foreign exchange (gain)/loss	(11)	22
<b>(Increase) decrease in assets:</b>		
(Increase) decrease in trade and other receivables	(1,036)	(1,009)
(Increase) decrease in inventories	(106)	(34)
<b>Increase (decrease) in liabilities:</b>		
Increase (decrease) in trade and other payables	680	833
Increase (decrease) in provisions	67	63
<b>Net cash (used in) from operating activities</b>	<b>(2,433)</b>	<b>(1,678)</b>

## 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 present revenue, expenditure and certain asset information regarding geographic segments for the year ended 30 June 2009.

Primary reporting geographic segments 30 June 2009	France \$A'000	Australia \$A'000	South East Asia \$A'000	China \$A'000	Consolidated \$A'000
<b>Segment Revenue:</b>					
Sales to external customers	1,444	110	220	3,053	4,827
Inter-segment sales	-	1,877	-	56	1,933
<b>Total sales revenue</b>	<b>1,444</b>	<b>1,987</b>	<b>220</b>	<b>3,109</b>	<b>6,760</b>
Other revenue	-	144	41	626	811
<b>Total segment revenue</b>	<b>1,444</b>	<b>2,131</b>	<b>261</b>	<b>3,735</b>	<b>7,571</b>
Inter-segment sales elimination					(1,933)
Unallocated revenue					-
<b>Consolidated revenue</b>					<b>5,638</b>
<b>Segment Result:</b>					
<b>Segment result</b>	<b>772</b>	<b>(3,427)</b>	<b>203</b>	<b>(389)</b>	<b>(2,841)</b>
Unallocated revenue less unallocated expenses					-
Income tax expenses					-
<b>Net profit/(loss) for the year</b>					<b>(2,841)</b>
<b>Segment Assets and Liabilities:</b>					
<b>Segment assets</b>	<b>-</b>	<b>10,065</b>	<b>40</b>	<b>3,545</b>	<b>13,650</b>
Intersegment elimination					(2,965)
<b>Total assets</b>					<b>10,685</b>
<b>Segment liabilities</b>	<b>-</b>	<b>10,545</b>	<b>-</b>	<b>4,210</b>	<b>14,755</b>
Intersegment elimination					(2,965)
<b>Total liabilities</b>					<b>11,790</b>

## 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
<b>Final dividend:</b>	Current year	N/A	N/A	N/A	N/A
	Previous year	N/A	N/A	N/A	N/A
<b>Interim dividend:</b>	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.

N/A

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).

N/A

## 9 Consolidated retained profits

	Current period - \$A'000	Previous corresponding period - \$A'000
Retained profits at the beginning of the financial period	(17,937)	(15,864)
Net loss attributable to members	(2,841)	(2,073)
<b>Retained profits at end of financial period</b>	<b>(20,778)</b>	<b>(17,937)</b>

## 10 NTA backing

	Current period (\$)	Previous corresponding Period (\$)
Net tangible asset backing per <sup>†</sup> ordinary security	(0.036)	(0.020)

## 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)	N/A
Date control lost	Nil
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

For personal use only

## 12 Earnings per share

	Current period (\$)	Previous corresponding Period (\$)
Net Loss attributable to ordinary equity holders of the parent	(2,840,527)	(2,072,610)
Weighted average number of ordinary shares for basic earnings per share	148,139,591	137,734,574
Effect of dilution:		
Share options	-	44,161
Weighted average no of ordinary shares adjusted for the effect of dilution.	148,139,591	137,778,735
<b>Loss per Share</b>		
- Basic loss per share	(\$0.019)	(\$0.015)
- Diluted loss per share	(\$0.019)	(\$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
Monika AEC Limited	26	21

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	39	(16)
Income tax on ordinary activities	-	-
<b>Profit/(loss) from ordinary activities after tax</b>	39	(16)
Extraordinary items net of tax	-	-
<b>Net profit/(loss)</b>	39	(16)
Adjustments	(39)	(13)
<b>Share of net profit/(loss) of associates and joint venture entities</b>	-	(29)

**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)

- |                                     |  |                          |   |
|-------------------------------------|--|--------------------------|---|
| <input type="checkbox"/>            | The +accounts have been audited.                   | <input type="checkbox"/> | The +accounts have been subject to review.                  |
| <input type="checkbox"/>            |  | <input type="checkbox"/> | The +accounts are in the process of being reviewed.         |
| <input checked="" type="checkbox"/> | The +accounts are in the process of being audited. | <input type="checkbox"/> | The +accounts have <i>not</i> 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 2009

Print name: A. Middleton

For personal use only