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 2010	30 June 2009

2. Results for announcement to the market

$A'000's

2.1	Revenues from operations	Down	66%	to	1,648
2.2	Loss from operations after tax attributable to members	Up	34%	to	(3,795)
2.3	Net loss for the period attributable to members	Up	34%	to	(3,795)

		Amount per security	Franked amount per security
2.4	**Dividends**		
	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 global financial crisis continued to impact AEC throughout the 2010 financial year. Sales for the year were the lowest annual sales AEC has recorded this decade.

Recurring sales of spares and services generated 57% of the revenue, while sales of engines generated 31% and sales of NGVS kits and components generated 12%. This split demonstrates the status of the global economy throughout the year and AEC's market in particular. The majority of sales were for spares and service which relate to existing vehicles rather than sales of engines and NGVS kits for new vehicles.

Although AEC's sales and sales revenue were disappointing there were a number of developments throughout the 12 month period that will benefit AEC in future periods.

Global economy

The price and availability of oil is a key determining factor in the likely demand for natural gas vehicles. The price of oil fell from US$136 per barrel in mid 2008 to US$48 per barrel by the end of 2008. Through FY2010 oil traded in a range of US$60 to US$84 per barrel with an average for the period of US$73.

Growth in developed economies slowed significantly as a result of the global financial crisis. Emerging economies such as China, India, South East Asia, the Middle East and South America continued to grow with increasing demand for energy.

China is now reported to have overtaken the United States as the world's largest energy consumer. As developing economies, China and the other emerging countries will be less energy efficient than the western world with an increasing demand for oil per capita. Changes will be required in these emerging countries to overcome the prohibitive financial and environmental costs of increasing demand for the traditional energy sources of oil and coal.

The requirement for new discoveries is forcing oil exploration into deeper water and more hazardous environments. Recent, unfortunate incidents, in Australia and overseas have highlighted the potential high cost of extraction and environmental risks of such discoveries.

With increased energy demand and diminishing supply, over the next decade and beyond the likely outcome is higher energy prices. The higher the cost of energy, the greater the incentive for governments and corporations to look at cleaner and cheaper alternatives.

Natural gas, as a cleaner technology emitting significantly less carbon than oil or coal, is steadily becoming a more important part of the energy mix. Demand for natural gas vehicles will benefit as refuelling infrastructure expands combined with an increasing price and reduced security for the supply of oil.

The global financial crisis has highlighted the changing demographics of the world. The demand for energy is increasingly coming from the emerging markets. It is in these markets that AEC has concentrated its marketing efforts over the last decade.

AEC developments

AEC had a number of significant developments throughout FY2010. These include:

(a) Development of the Tata Motors Limited (TML) natural gas engines commenced and progressed to commissioning of the first production series vehicles. AEC production sales to TML commenced in June 2010.

(b) TML commissioning AEC to assist in their development of a hybrid NG engine.

(c) AEC and SHIGAN Quantum Technologies Pvt Ltd (SQT) of India signing a Technical Assistance Agreement and Development & Supply Agreement. This relationship facilitates AEC's development of the TML engines; future production in India; in country procurement, testing, commissioning and after sale service; and introduction of AEC's NGVS to other leading Indian heavy duty vehicle manufacturers.

(d) Sale of 25 LNG engines to Hangzhou Public Transport Company (HPT) in China. HPT now has 36 LNG buses using the AEC NGVS.

(e) Sale of 20 CNG engines to PT Arimba Jaya (AJA) in Indonesia. In total, AJA has purchased 85 CNG engines from AEC for AJA's operations in Indonesia.

(f) Signing of a co-operation agreement with Norinco Equipment Co Ltd (Norinco) in June 2010 whereby AEC will receive a royalty based on Norinco's future gross sales revenue from natural gas vehicles, engines, components, etc arising from the joint co-operation of AEC and Norinco.

(g) Negotiations, in conjunction with Norinco, for large bus contracts in Thailand and Egypt. Norinco and AEC are involved in a number of other proposals, in various countries, where the negotiations are not as advanced as those in Thailand and Egypt.

(h) Commenced development of a Huachai Deutz 12 litre engine for Norinco; a Cummins 5.9 litre engine for Xiangyang Shengtian Industrial Trade Corp; and a Dong Feng 4 cylinder engine for Lixun Automotive Electronics.

(i) Completing development, in conjunction with Deutz Dalian Engine Co (DDE), of a hybrid CNG electric engine. DDE sold 100 hybrid CNG electric engines in FY2010 using NGVS kits purchased from AEC in prior periods.

(j) Completing development of the DDE Deutz 1013 7.1 litre LNG and CNG engines.

(k) Successful conversion of an Isuzu 295hp diesel vehicle to LNG for an Australian customer. Further orders were expected but to date have not been received.

(l) Completing development and commencing commercial sales of AEC's fifth generation electronic control unit (ECU). This fifth generation ECU has significant cost and performance benefits over AEC's fourth generation ECU and competitor products.

(m) Favourable settlement of long outstanding and disputed amounts due from Centre de Recherche en Machines Thermiques (CRMT) in France and Weifang Weichai Peterson Gas Engine Co Ltd in China.

Throughout the financial year AEC has conducted more than 10 separate road trials in China with different end users and different vehicles/engines using the AEC NGVS. Despite success of the trials, both in competitive and non competitive tender situations, the negotiations and trials have all continued well past the agreed closure dates. Some of these trials date back a number of years and demonstrate the patience required for doing business in China.

FINANCIAL REVIEW

As stated above, sales for the year were the lowest annual sales AEC has recorded this decade.

Sales revenue was down by 66% compared to the previous year. AEC Australia's revenue from external customers decreased by 55% and AEC China's sales to external customers decreased by 70%.

The $3.8 million loss for the financial year was 34% higher than the $2.8 million loss in 2009.

The loss is after charging $2.0 million in non cash expenses for depreciation, amortisation and impairment of capitalised development expenditure, unrealised foreign exchange losses, share based payments and accrued interest on the major shareholder loans.

Gross margins by product were generally in line with prior years. Margins on sales to India were lower than other regions as sale prices are based on high volume sales that did not commence until July

2010. The total margin for FY2010 was negative due to a $190,000 write down of obsolete inventory and $300,000 of warranty claims in China consistent with prior years higher sales levels.

General overhead costs charged before arriving at $3.1 million Earnings Before Interest Taxation Depreciation and Amortisation (EBITDA) were $700,000 less than FY2009. However, foreign exchange losses, write off of capitalised expenditure and bad debt write offs were $1.3 million higher than FY2009.

As at 30 June 2010 AEC's working capital had improved by $2.2 million over 30 June 2009. The improved working capital is the result of the $1.2 million share placement, the $1.8 million rights issue and restructuring of the major shareholders loan facility.

AEC's net asset position deteriorated by $800,000 due to the $3.8 million loss.

At 30 June 2010, other than premium funding of insurance, all interest bearing secured borrowings are from AEC related entities.

SUMMARY

The 2010 Financial Year was disappointing in terms of the lack of sales achieved and the loss incurred.

Technically and commercially AEC's products remain very competitive. As a result, FY2010 saw AEC firmly established in India in addition to its existing markets in China, France, Thailand and Australia.

Despite on-going concerns for the global economy, AEC's key business drivers of:

- the price of oil;
- concern for the security of energy supply;
- environmental concerns; and
- emerging economies growing demand for alternative energy,

remain positive.

These business drivers, strong business relationships with SQT in India and Norinco in China and the quality of AEC's technical management are expected to deliver a much improved result for FY2011. However, a key focus in the short term will remain cash flow and funding to ensure AEC's true potential is achieved.

Tony Middleton
Managing Director
31 August 2010

3. Condensed consolidated statement of comprehensive income

	Current period - $A'000	Previous corresponding period - $A'000
Revenues from operations	1,648	4,827
Other income	261	811
Expenses from ordinary activities, excluding borrowing costs (refer note 3.1)	(5,481)	(7,677)
Borrowing costs	(850)	(802)
Loss before income tax	**(4,422)**	**(2,841)**
Income tax benefit	627	-
Net loss for the year	**(3,795)**	**(2,841)**
Net loss attributable to minority interests	-	-
Net loss attributable to owners of Advanced Engine Components Limited	**(3,795)**	**(2,841)**
Other comprehensive income		
Foreign currency translation differences for foreign operations	(18)	7
Other comprehensive income for the year	**(18)**	**7**
Total comprehensive income for the year attributable to the owners of Advanced Engine Components Limited	**(3,813)**	**(2,834)**

Notes to the consolidated statement of comprehensive income

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	(1,768)	(3,283)
Employee benefits expense	(2,230)	(2,666)
Depreciation and amortisation expense	(498)	(532)
Impairment	(364)	(51)
Other expenses from ordinary activities	(621)	(1,145)
Total Expenses	**(5,481)**	**(7,677)**

3.2 Other disclosures relating to the consolidated statement of comprehensive income

	Current period - $A'000	Previous corresponding period - $A'000
Net revenue/(expense) since the beginning of the reporting period resulting from deductions from the carrying amounts of assets :		
- amortisation of non-current assets	(311)	(341)
- depreciation of non-current assets	(187)	(191)
- impairment	(364)	(51)
- provision for bad debt written back	-	(12)

3.3 Revision of accounting estimates

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

4 Condensed consolidated statement of financial position

	At end of current period $A'000	As shown in last annual report $A'000
Current assets		
Cash and cash equivalents	829	280
Trade and other receivables	1,956	4,199
Inventories	1,705	1,605
Total current assets	**4,490**	**6,084**
Non-current assets		
Investments accounted for using the equity method	40	40
Property, plant and equipment (net)	275	419
Intangibles assets (net)	4,557	4,233
Total non-current assets	**4,872**	**4,692**
Total assets	**9,362**	**10,776**
Current liabilities		
Trade and other payables	1,420	2,735
Interest-bearing loans and borrowings	6,324	8,822
Provisions	325	324
Total current liabilities	**8,069**	**11,881**
Non-current liabilities		
Interest-bearing loans and borrowings	3,120	-
Provisions	119	-
Total non-current liabilities	**3,239**	**-**
Total liabilities	**11,308**	**11,881**
Net liabilities	**(1,946)**	**(1,105)**
Equity		
Contributed equity	21,194	18,366
Reserves	1,433	1,307
Accumulated losses	(24,573)	(20,778)
Equity attributable to members of the parent entity	**(1,946)**	**(1,105)**
Minority interests in controlled entities	-	-
Total equity	**(1,946)**	**(1,105)**

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)	3,399	4,661
Payments to suppliers and employees (inclusive of gst)	(4,029)	(6,407)
Interest received	5	4
Interest and other costs of finance paid	(122)	(652)
Net operating cash flows	**(747)**	**(2,394)**
Cash flows related to investing activities		
Payment for purchases of property, plant and equipment	(43)	(7)
Payment for capitalised development costs	(1,011)	(1,142)
Net investing cash flows	**(1,054)**	**(1,149)**
Cash flows related to financing activities		
Proceeds from issues of shares	1,904	946
Transaction costs associated with issue of shares	(18)	(62)
Proceeds from borrowings	1,046	4,273
Repayments of borrowings	(582)	(1,503)
Net financing cash flows	**2,350**	**3,654**
Net increase in cash held	**549**	**111**
Cash at beginning of year	280	169
Cash at end of year	**829**	**280**

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 2010:

(i) The Company 1 for 3 rights issue closed on 30 April 2010. $1,804,000 was raised including $1,100,000 subscribed by 698 Capital International Ltd by offset against accrued interest on the convertible notes which expired on 31 December 2009.

(ii) Insurance premiums with a fair value of $186,726 (2009: $134,922) were financed.

(iii) The Company and 698 Capital Asia Pacific Ltd's ("698") $750,000 short term loan and $3,000,000 sales financing facility, together with all outstanding interest, were consolidated as one loan repayable at call. The additional $3,000,000 due under the convertible note that expired on 31 December 2009 was restructured as a non current loan and extended to 31 December 2011.

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	829	280
Total cash at end of period	**829**	**280**

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	(3,795)	(2,841)
Depreciation and amortisation	498	532
Impairment	364	51
Government grant received for capitalised development costs	12	116
Provision for doubtful debt written back	-	(12)
Cost of share based payment	108	166
Unrealised foreign exchange (gain)/loss	18	(11)
(Increase) decrease in assets:		
(Increase) decrease in trade and other receivables	2,243	(1,127)
(Increase) decrease in inventories	(100)	(105)
Increase (decrease) in liabilities:		
Increase (decrease) in trade and other payables	(215)	770
Increase (decrease) in provisions	120	67
Net cash (used in) from operating activities	**(747)**	**(2,394)**

6 Segment Information

(a) Segment information provided to the strategic steering committee
The segment information provided to the Board for the reportable segments for the 12 months ended 30 June 2010 was as follows:

Reporting segments	**Australia**	**China**	**Total**
	$	$	$
Revenue			
Total segment revenue	790,115	953,323	1,743,438
Inter-segment revenue	(59,612)	(36,322)	(95,934)
Revenue from external customers	**730,503**	**917,001**	**1,647,504**
Adjusted EBITDA	**(919,697)**	**(1,361,008)**	**(2,280,705)**
Depreciation	(181,332)	(5,801)	(187,133)
Investments in associates	40,317	-	40,317
Additions to non-current assets	785,320	-	785,320
Total segment assets	**4,727,164**	**1,670,499**	**6,397,663**
Total segment liabilities	**(1,644,734)**	**(3,799,744)**	**(5,444,478)**

The segment information provided to the Board for the reportable segments for the 12 months ended 30 June 2009 was as follows:

Reporting segments	**Australia**	**China**	**Total**
	$	$	$
Revenue			
Total segment revenue	3,499,629	3,259,498	6,759,127
Inter-segment revenue	(1,866,695)	(65,596)	(1,932,291)
Revenue from external customers	**1,632,934**	**3,193,902**	**4,826,836**
Adjusted EBITDA	**(2,552,959)**	**360,539**	**(2,192,420)**
Depreciation	(185,219)	(6,501)	(191,720)
Investments in associates	40,317	-	40,317
Additions to non-current assets	991,708	10,558	1,002,266
Total segment assets	**5,639,362**	**3,391,155**	**9,030,517**
Total segment liabilities	**(2,770,507)**	**(3,805,322)**	**(6,575,829)**

(b) Other segment information -Adjusted EBITDA

The Board assesses the performance of the operating segments on a measure of adjusted EBITDA. The measurement basis excludes other income, corporate costs, financing costs, unrealised foreign exchange movements, depreciation, amortisation and intangible asset impairment expense. A reconciliation of adjusted EBITDA to operating profit before income tax is provided as follows:

	2010	2009
	$	$
Adjusted EBITDA	**(2,280,705)**	**(2,192,420)**
Other income	260,675	810,953
Corporate costs	(411,599)	(571,646)
Finance costs	(849,852)	(802,158)
Unrealised Foreign Exchange movements	(279,073)	497,805
Depreciation	(187,132)	(191,720)
Amortisation	(310,906)	(340,541)
Impairment of intangible assets	(364,209)	(50,800)
Loss before income tax from continuing operations	**(4,422,801)**	**(2,840,527)**

(i) Segment assets

The amounts provided to the strategic steering committee with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

Reportable segments' assets are reconciled to total assets as follows:

	2010	2009
	$	$
Segment assets	**6,397,663**	**9,030,517**
Intersegment eliminations	(2,462,189)	(2,807,648)
Unallocated:		
Cash and cash equivalents	828,891	279,955
Investments accounted for using equity method	40,317	40,317
Property, plant and equipment (net)	-	-
Intangible assets (net)	4,557,337	4,232,970
Total assets as per the balance sheet	**9,362,019**	**10,776,111**

The total of non-current assets located in Australia is $4,978,720 (2009: $4,673,997), and the total of these non-current assets located in other countries is $13,352 (2009: $18,216). Segment assets are allocated to countries based on where the assets are located.

(ii) Segment liabilities
The amounts provided to the strategic steering committee with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment.
The Group's borrowings are not considered to be segment liabilities but rather managed by the treasury function.

	2010	2009
	$	$
Segment liabilities	**(5,444,478)**	**(6,575,829)**
Intersegment eliminations	3,579,838	3,517,087
Unallocated:		
Current borrowings	(6,323,935)	(8,821,580)
Non-current borrowings	(3,120,082)	-
Total liabilities as per the balance sheet	**(11,308,657)**	**(11,880,322)**

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.

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	(20,778)	(17,937)
Net loss attributable to members	(3,795)	(2,841)
Retained profits at end of financial period	**(24,573)**	**(20,778)**

10 NTA backing

	Current period ($)	Previous corresponding Period ($)
Net tangible asset backing per +ordinary security	(0.032)	(0.036)

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

12 Earnings per share

	Current period ($)	Previous corresponding Period ($)
Net Loss attributable to ordinary equity holders of the parent	(3,795,897)	(2,840,527)
Weighted average number of ordinary shares for basic earnings per share	161,802,414	148,139,591
Effect of dilution:		
Share options	1,086,595	-
Weighted average no of ordinary shares adjusted for the effect of dilution.	162,889,009	-
Loss per Share		
- Basic loss per share	($0.023)	($0.019)
- Diluted loss per share	($0.023)	($0.019)

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	26

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

14 Other 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

N/A

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

N/A

Sign here: .... Date: 31 August 2010
(Managing Director)

Print name: A Middleton