

**HALF-YEAR FINANCIAL REPORT**  
**31 December 2007**

Advanced Engine Components Limited

ABN 67 009 081 770

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## Directors' Report

The Directors of Advanced Engine Components Limited (AEC or the Company) submit herewith the financial report for the half-year ended 31 December 2007. In order to comply with the provisions of the Corporations Act 2001, the Directors' Report as follows:

### **Details of Directors**

The names of the Directors of AEC during or since the end of the half-year are:

Graham Keys	Thomas Liu
Antony Middleton	William Lee (resigned on 10 September 2007)
Albert Pun	

### **Review of Operations**

In November 2007 AEC, together with its business partners from Thailand, India and China, attended, presented and exhibited AEC's natural gas products at the Asia Pacific Natural Gas Vehicle Association conference and exhibition in Thailand. With more than 9,000 visitors attending the 7,500 square meter exhibition, featuring over 138 companies from 28 countries, the conference and exhibition further confirmed natural gas as the alternative fuel of choice to the vehicle industry throughout the world and in particular throughout Asia.

Natural gas' widespread availability, reduced cost, reduced price volatility, environmental and health benefits and commercial use as a vehicle fuel have seen an average global annual growth of natural gas vehicles exceeding 30% over the past five years. The Asian industry growth has averaged 50%.

AEC has been a major beneficiary of this growth. Over 930 heavy duty vehicles, trucks and buses, are now using natural gas engines incorporating AEC's patented natural gas vehicle systems (NGVS). These vehicles have travelled in excess of 160 million kilometres in France, China, Thailand, Indonesia, Malaysia, Myanmar and Australia. As well as continued growth in these countries AEC has ongoing developments in India, Korea and Iran.

Throughout the 6 months to 31 December 2007 AEC sold, \$640,000 of NGVS, \$400,000 of completed natural gas engines incorporating the AEC NGVS and \$820,000 of spares and consumables, to a geographically diverse range of customers.

During the period AEC raised \$2.29 million to assist in funding the required working capital for expanding sales.

## **Results of Operations**

Sales for the 6 months totalled \$1,859,000. This is similar to sales for the 6 months to 31 December 2006 (\$1,973,000) and about 60% of the total sales for the year ended 30 June 2007 (\$3,077,000). However, the most pleasing result for the current period is the consistency and increasing level of sales on a quarter by quarter basis compared to prior periods.

In December 2006 one sale to one customer, providing that customer with approximately 12 months NGVS inventory, accounted for 62% of the six months sales and 40% of the sales for the 12 months to 30 June 2007. Sales for the six months to 31 December 2007 are more consistent than prior periods, with an upward trend throughout the period, and a more diverse range of customers. The upward trend has continued into the third quarter of the 30 June 2008 financial year and is expected to continue through to 30 June 2008.

Gross Profit margin for the six months (46%) demonstrates the efficiencies that can be achieved with more consistent sales than the 30% achieved for the six months to 31 December 2006 and 24% for the 12 months to 30 June 2007.

The Loss from Operations (\$958,000), although an improvement, is consistent with the prior period (\$1,062,000). The result for the six months to December 2007 is after incurring an additional \$200,000 expenditure on marketing expenses. This expenditure will bring major benefits in future periods. In addition, \$100,000 amortisation of Capitalised Development Costs was charged to Administration expenses. This amortisation was not required in the previous period.

## **Working capital and cash flow**

At 31 December 2007 AEC had current assets, net of trade and other payables, of \$2,095,000 compared to \$1,869,000 at 30 June 2007.

AEC's improved trading is further reflected in the 37% improvement in Receipts from Customers and the 20% reduction in Payments to Suppliers and Employees compared to the same period last year.

At 31 December 2007 net assets had increased to \$1,334,145 compared to \$433,041 at 30 June 2007.

## **Independence Review by Auditor**

Section 307C of the Corporations Act 2001 requires our auditors, BDO Kendalls Audit & Assurance (WA) Pty Ltd to provide the Directors of Advanced Engine Components Limited with an Independence Declaration in relation to the review of the half-year financial report.

This independence declaration is on page 14 and forms part of this Directors' Report.

Signed in accordance with a resolution of Directors.



**A Middleton**

Director

Perth, Western Australia, 28 February 2008

Directors' Declaration

In accordance with a resolution of the Directors of Advanced Engine Components Limited, I state that:

In the opinion of the Directors:

- (a) the financial statements and notes of the consolidated entity, set out on pages 4 to 13, are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the financial position as at 31 December 2007 and of the performance for the half-year ended on that date of the consolidated entity; and
  - (ii) complying with Accounting Standards AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
  
- (b) subject to the matters referred to in Note 2 to the financial statements, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



**A Middleton**  
Director

Perth, Western Australia, 28 February 2008

**Advanced Engine Components Limited**  
**Interim Report – 31 December 2007**

Consolidated Income Statement  
*for the half-year ended 31 December 2007*

	Notes	Consolidated 31 Dec 07 \$	31 Dec 06 \$
Sales revenue	4	1,858,864	1,973,295
Cost of goods sold		(1,005,569)	(1,402,135)
<b>Gross profit</b>		<b>853,295</b>	<b>571,160</b>
Gain on acquiring 'rights of interest' in Motive Alliance Agreement	4	--	300,000
Other revenue from continuing operations	4	179,175	233,452
Distribution expenses		(29,718)	(59,632)
Marketing expenses		(212,897)	(16,723)
Occupancy expenses		(112,893)	(118,385)
Corporate expenses		(133,495)	(159,304)
Administration expenses		(853,487)	(701,592)
Development expenses		(410,258)	(589,133)
Borrowing costs	4	(237,568)	(221,534)
Deemed loss of goodwill on disposal of investment	4	--	(300,000)
Loss from continuing operations before income tax expense		(957,846)	(1,061,691)
Income tax expense		--	--
<b>Loss attributable to members of the parent entity</b>		<b>(957,846)</b>	<b>(1,061,691)</b>
Basic loss per share		Cents (1.0)	Cents (1.0)

*The above Consolidated Income Statement should be read in conjunction with the accompanying notes.*

**Advanced Engine Components Limited**  
**Interim Report – 31 December 2007**

Consolidated Balance Sheet

as at 31 December 2007

	Notes	Consolidated	
		31 Dec 07 \$	30 Jun 07 \$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		905,734	611,139
Trade and other receivables		1,139,177	923,318
Inventories		1,352,719	1,465,230
<b>Total current assets</b>		<b>3,397,630</b>	<b>2,999,687</b>
<b>Non-Current Assets</b>			
Investment accounted for using the equity method	6	69,703	--
Property, plant and equipment		687,563	782,683
Intangible assets		3,258,575	2,833,844
<b>Total non-current assets</b>		<b>4,015,841</b>	<b>3,616,527</b>
<b>Total assets</b>		<b>7,413,471</b>	<b>6,616,214</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables		1,302,431	1,130,964
Borrowings	7	1,603,919	1,126,634
Provisions		187,298	183,217
<b>Total current liabilities</b>		<b>3,093,648</b>	<b>2,440,815</b>
<b>Non-Current Liabilities</b>			
Borrowings	7	2,973,661	3,731,224
Provisions		12,017	11,134
<b>Total non-current liabilities</b>		<b>2,985,678</b>	<b>3,742,358</b>
<b>Total liabilities</b>		<b>6,079,326</b>	<b>6,183,173</b>
<b>Net assets</b>		<b>1,334,145</b>	<b>433,041</b>
<b>EQUITY</b>			
Contributed equity		17,508,309	15,257,939
Reserves		648,169	1,039,589
Accumulated losses		(16,822,333)	(15,864,487)
<b>Total equity</b>		<b>1,334,145</b>	<b>433,041</b>

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

Statement of Changes in Equity  
for the half-year ended 31 December 2007

	Issued Capital \$	Convertible Notes \$	Asset Revaluation Reserve \$	Employee Equity Benefits Reserve \$	Foreign Exchange Translation Reserve \$	Accumulated Losses \$	Total Equity \$
<b>As at 1 July 2007</b>	15,099,939	158,000	750,000	241,492	48,097	(15,864,487)	433,041
Loss for the period	--	--	--	--	--	(957,846)	(957,846)
Foreign exchange on translation	--	--	--	--	(391,420)	--	(391,420)
<i>Total expense for the year recognised in equity:</i>							
Issue of share capital	2,294,436	--	--	--	--	--	2,294,436
Share issue costs	(44,066)	--	--	--	--	--	(44,066)
<b>At 31 December 2007</b>	17,350,309	158,000	750,000	241,492	(343,323)	(16,822,333)	1,334,145
<b>As at 1 July 2006</b>	11,585,748	158,000	750,000	296,692	(9,437)	(12,733,042)	47,961
Loss for the period	--	--	--	--	--	(1,061,691)	(1,061,691)
Foreign exchange on translation	--	--	--	--	29,774	--	29,774
<i>Total expense for the year recognised in equity:</i>							
Issue of share capital	2,515,680	--	--	--	--	--	2,515,680
Share issue costs	(179,154)	--	--	--	--	--	(179,154)
<b>At 31 December 2006</b>	13,922,274	158,000	750,000	296,692	20,337	(13,794,733)	1,352,570

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

**Advanced Engine Components Limited**  
**Interim Report – 31 December 2007**

Consolidated Cash Flow Statement  
*for the half-year ended 31 December 2007*

	<b>Consolidated</b>	
	<b>31 Dec 07</b>	<b>31 Dec 06</b>
	<b>\$</b>	<b>\$</b>
<b>Cash Flows from Operating Activities</b>		
Receipts from customers	1,121,554	821,162
Payments to suppliers and employees	(1,957,177)	(2,474,668)
Interest received	10,055	14,642
Interest paid and borrowing costs	(237,568)	(51,245)
<b>Net cash outflow from operating activities</b>	<b>(1,063,136)</b>	<b>(1,690,109)</b>
<b>Cash Flows from Investing Activities</b>		
Payments for investment in joint venture	(69,703)	--
Payments for property, plant and equipment	(8,211)	(106,432)
Payment for capitalised development costs	(534,447)	(352,876)
Proceeds from disposal of plant and equipment	--	43,573
<b>Net cash outflow from investing activities</b>	<b>(612,361)</b>	<b>(415,735)</b>
<b>Cash Flows from Financing Activities</b>		
Additions of borrowings	1,076,125	--
Repayment of borrowings	(1,356,403)	(168,113)
Proceeds from issue of equity securities	2,294,436	2,515,680
Transaction costs associated with issue of shares	(44,066)	(84,918)
Finance lease payments	--	(21,030)
<b>Net cash inflow from financing activities</b>	<b>1,970,092</b>	<b>2,241,619</b>
<b>Net increase in cash held</b>	<b>294,595</b>	<b>135,775</b>
Cash at the beginning of the half-year	611,139	1,088,013
<b>Cash at the end of the half-year</b>	<b>905,734</b>	<b>1,223,788</b>

*The above Consolidated Cash Flow Statement should be read in conjunction with the accompanying notes.*

1 Basis of Preparation of Half-year Report

This general purpose financial report for the interim half-year reporting period ended 31 December 2007 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Act 2001.

This interim financial report does not include all the notes of the type normally included within the annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2007 and any public announcements made by Advanced Engine Components Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies and methods of computation adopted are consistent with those of the previous financial year and corresponding interim reporting period.

**Investment in Joint Venture**

Joint ventures are those entities over whose activities the consolidated entity has joint control. Joint ventures are accounted for using equity method (equity accounted investees). The consolidated financial statements include the consolidated entity's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the consolidated entity, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the consolidated entity's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the consolidated entity has an obligation or has made payment on behalf of the investee.

2 Going Concern Basis

The consolidated entity incurred a loss for the half year of \$957,846 (2006: half-year loss of \$1,061,691). For the six months ended 31 December 2007 the consolidated entity had a net cash outflow from operating activities of \$1,063,136 (31 December 2006: \$1,690,109).

At 31 December 2007 the consolidated entity had cash assets of \$905,734 (30 June 2007: \$611,139) and working capital of \$303,982 (30 June 2007: \$558,872). At 31 December 2007 the consolidated entity has net assets of \$1,334,145 (30 June 2007: \$433,041).

Despite the consolidated entity's improved cash, working capital and net asset position, as at 31 December 2007, it continued to incur losses and have net cash outflows from operating activities. The Directors are confident that the increased sales of completed engines, kits, spares and consumables, together with potential cash flows from joint venture activities, will reverse this situation in the future. However, unforeseen timing delays in receiving future sales orders or in collecting sales receivables owing, together with continuing engine development programmes may require additional cash input from either debt or equity raisings.

**Advanced Engine Components Limited**  
**Interim Report – 31 December 2007**  
**Notes to the Financial Statements**

2 Going Concern Basis (continued)

At 31 December 2007, the consolidated entity has interest bearing liabilities of \$757,192 (current) including accrued interest and \$2,927,931 (non-current) owing to 698 Capital Asia Pacific Limited. 698 Asia Pacific Capital Limited is a related party of the Company's major shareholder 698 Capital International Limited. 698 Capital International Limited has 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 one year from the signature of the Directors' Declaration. The financial support, of 698 Asia Pacific Capital Limited and 698 Capital International Limited, is subject to 698 Capital International Limited remaining the major shareholder of the Company holding not less than 40% of the ordinary issued shares in the Company.

Based on 698 Capital International Limited's support, known sales since 31 December 2007 and the expectation of continued increased sales revenue over the next twelve months, the Directors consider it appropriate that the financial report be prepared on a going concern basis.

3 Segment Information

<b>Primary reporting geographic segments</b>	<b>France</b>	<b>Australia</b>	<b>China</b>	<b>Consolidated</b>
<b>Half Year 2007</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Revenue</b>				
Sales to external customers	464,214	59,828	1,334,822	1,858,864
Inter-segment sales	--	435,852	2,974	438,826
Inter-segment sales elimination	--	(435,852)	(2,974)	(438,826)
<b>Segment revenue</b>	<b>464,214</b>	<b>59,828</b>	<b>1,334,822</b>	<b>1,858,864</b>
Non-segment revenue:				
Interest & other revenue	141,700	37,074	401	179,175
<b>Profit/(loss) before tax &amp; finance costs</b>	<b>360,255</b>	<b>(1,230,029)</b>	<b>149,496</b>	<b>(720,278)</b>
Finance costs	--	(237,568)	--	(237,568)
<b>Net profit/(loss) for the period</b>	<b>360,255</b>	<b>(1,467,597)</b>	<b>149,496</b>	<b>(957,846)</b>

<b>Primary reporting geographic segments</b>	<b>France</b>	<b>Australia</b>	<b>China</b>	<b>Consolidated</b>
<b>Half Year 2006</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Revenue</b>				
Sales to external customers	472,983	32,862	1,467,450	1,973,295
Inter-segment sales	--	958,794	5,066	963,860
Inter-segment sales elimination	--	(958,794)	(5,066)	(963,860)
<b>Segment revenue</b>	<b>472,983</b>	<b>32,862</b>	<b>1,467,450</b>	<b>1,973,295</b>
Non-segment revenue:				
Interest & other revenue	--	533,356	96	533,452
<b>Profit/(loss) before tax &amp; finance costs</b>	<b>331,283</b>	<b>(1,402,345)</b>	<b>230,905</b>	<b>(840,157)</b>
Finance costs	--	(221,534)	-	(221,534)
<b>Net profit/(loss) for the period</b>	<b>331,283</b>	<b>(1,623,879)</b>	<b>230,905</b>	<b>(1,061,691)</b>

**Advanced Engine Components Limited**  
**Interim Report – 31 December 2007**  
**Notes to the Financial Statements**

	<b>Consolidated</b>	
	<b>31 Dec 07</b>	<b>31 Dec 06</b>
	<b>\$</b>	<b>\$</b>
4	Revenue and Expenses from Continuing Operations	
	<b>Revenue from Continuing Operations</b>	
	Sales revenue	1,858,864      1,973,295
	<b>Other revenue:</b>	
	Interest revenue	10,055      14,642
	Other income	141,700      216,676
	Foreign exchange gain	27,420      2,134
	Gain on acquiring 'rights of interest' in Motive Alliance Agreement	--      300,000
	<b>Total other revenue</b>	<b>179,175      533,452</b>
	<b>Total revenue</b>	<b>2,038,039      2,506,747</b>
	<b>Expenses from Continuing Operations</b>	
	<b>Borrowing costs</b>	
	Interest:	
	Director related entities:	
	698 Capital Asia Pacific Limited	190,609      169,077
	Other entities	46,959      52,457
	<b>Other disclosure items in respect of the loss from continuing operations</b>	
	Depreciation and amortisation:	
	Depreciation of plant and equipment	80,028      99,279
	Amortisation of leasehold improvements	23,303      9,688
	Amortisation of capitalised development costs	109,716      15,468
	Foreign exchange loss	--      67,212
	Net transfers to/(from) provisions:	
	Provisions for warranties	309      (1,440)
	Employee entitlements	41,625      23,300
	Operating lease rental expenses:	
	Minimum lease payments	84,489      78,600
	Net gains:	
	Profit on sale of plant and equipment	--      43,573
	Deemed loss on disposal of investment	--      300,000

5 Dividends

No dividend has been paid or proposed in respect of the current or previous half year.

**Advanced Engine Components Limited****Interim Report – 31 December 2007****Notes to the Financial Statements**

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## 6 Investment in Joint Venture

The Company has entered into a joint venture arrangement in Thailand to build new natural gas (“NG”) powered vehicles and re-power existing diesel vehicles with NG engines. The Company is partners in joint venture with Monika Motors Limited (51%), a Thai based strategic investment company (19%) and a Thai based individual with wide experience in Thailand’s public transport and government (9%). The Company has a 21% interest in the joint venture. The joint venture has just commenced the operation in the current period with minimal transactions. Please refer to announcement made by the Company on 11 July 2007.

## 7 Borrowings

	<b>Consolidated</b>	
	<b>31 Dec 07</b>	<b>30 June 07</b>
	<b>\$</b>	<b>\$</b>
<b>Current:</b>		
Insurance premiums finance	59,106	265,978
Loan from 698 Capital Asia Pacific Limited (A)	757,192	834,452
Commercial loan from Westpac	27,347	26,204
Loan from CIM Special Situations Fund Limited	760,274	-
	<u>1,603,919</u>	<u>1,126,634</u>
<b>Non-Current:</b>		
Loan from CIM Special Situations Fund Limited	-	760,274
Convertible note	2,927,931	2,909,175
Commercial loan from Westpac	45,730	61,775
	<u>2,973,661</u>	<u>3,731,224</u>
Total Borrowings	<u>4,577,580</u>	<u>4,857,858</u>

(A) 698 Capital Asia Pacific Limited is a related party.

**Advanced Engine Components Limited**  
**Interim Report – 31 December 2007**  
**Notes to the Financial Statements**

8 Equity Securities Issued

	2007 Shares	2006 Shares	2007 \$	2006 \$
<b>Issues of ordinary shares during the half-year</b>				
Issued during the period for right issues to existing shareholders pursuant to Prospectus dated 17 October 2007 (A)	14,339,644	--	2,294,326	--
Exercise of unlisted options at \$0.128 on or before 30 November 2009	859	--	110	--
Issued during the period for the placement to professional and sophisticated investors	--	14,583,332	--	1,750,000
Issued during the period for the placement to existing shareholders pursuant to the share purchase plan	--	4,714,000	--	565,680
Issue of shares to related parties (B)	--	--	--	200,000
Less: capital raising costs			(44,066)	(179,154)
	14,340,503	19,297,332	2,250,370	2,336,526

(A) A total of 14,339,644 fully paid ordinary shares and 7,169,883 unlisted options exercisable at 12.8 cents each on or before 30 November 2009 were allotted and issued effective 22 November 2007. The Right Issue was underwritten by the Company's major shareholder, 698 Capital International Ltd. 698 Capital International Ltd was allotted 8,516,305 shares and 4,258,153 options.

(B) Prior to 31 December 2006 \$100,000 was received from Mr G Keys and Mr A Middleton respectively, both being Directors, for the issue of 833,334 shares each at 12 cents per share subject to shareholder approval. Shareholder approval was granted on 22 February 2007.

9 Contingent Liabilities and Contingent Assets

The Company entered into an arrangement with two of its French customers, CRMT and Irisbus, pursuant to which CRMT installed AEC NGVS and other parts into the GNV EURO 3 gas engine for use by Irisbus in the manufacture of gas powered buses.

CRMT commenced litigation against Irisbus on 8 July 2004 in the Commercial Court of Lyon for recovery of €1,508,217.56 owed. Irisbus counterclaimed against CRMT requesting an expert evaluation of the facts in relation to the dispute between the two parties. CRMT joined AEC to the action in relation to the counterclaim by Irisbus against CRMT.

In April 2007 Irisbus terminated the expert evaluation. However, Irisbus have not withdrawn their action against CRMT for costs of operational problems amounting to €10,000,000. No quantum of loss has been officially claimed by Irisbus against AEC or CRMT.

The purpose of the expert evaluation was to enable any party to amend or bring a fresh claim including their estimate as to the loss they had suffered. Only when an expert evaluation is available (if ever) will AEC have an understanding of the quantum of claim (if any) that it is exposed to. Currently neither Irisbus nor CRMT is claiming any specific quantum of loss from AEC. Irisbus has advised that it has paid CRMT for all AEC NGVS kits supplied by CRMT.

In August 2007, AEC instructed its French lawyers to file a summary of proceedings against CRMT for recovery of monies owed by CRMT, all AEC stock held by CRMT and recovery of all costs incurred by AEC in pursuing the action. In November 2007, the Court instructed CRMT to pay the €75,900 claimed by AEC, plus interest and costs, and return all AEC stock held by CRMT. The monies and stock were received in December 2007. AEC has now instructed its French lawyers to file a summary of proceedings against CRMT for the balance of monies owing by CRMT. This Court decision is viewed as very favourable to AEC should Irisbus or CRMT make a claim for loss from AEC.

AEC will vigorously defend any claim made against it should the action proceed and involve AEC. AEC will pursue all of its legal remedies against CRMT for any loss that CRMT may have occasioned to AEC. AEC has instructed Delsol & Associates in Lyon, France in relation to any action commenced against or by AEC on the merits of the matter.

The Directors have no reason to believe that the provision made for warranty in the accounts is insufficient.

10 Subsequent Events

There are no matters or circumstances that have arisen since 31 December 2007 that have or may significantly affect the operations, results, or state of affairs of the consolidated entity in the future financial years.



BDO Kendalls

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**DECLARATION OF INDEPENDENCE BY PETER TOLL TO THE DIRECTORS OF  
ADVANCED ENGINE COMPONENTS LIMITED**

As lead auditor of Advanced Engine Components Limited for the half year ended 31 December 2007, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- any applicable code of professional conduct in relation to the review.

This declaration is in respect of Advanced Engine Components Limited and the entities it controlled during the period.

*BDO Kendalls*  
*Peter Toll*

**PETER TOLL**

Director

**BDO Kendalls Audit and Assurance (WA) Pty Ltd**

Perth, Western Australia

Dated the 28<sup>th</sup> February 2008



## INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Advanced Engine Components Limited

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Advanced Engine Components Limited, which comprises the condensed balance sheet as at 31 December 2007, and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

#### *Directors' Responsibility for the Half-Year Financial Report*

The directors of the disclosing entity are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the disclosing entity's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Advanced Engine Components Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



*Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

*Conclusion*

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 Advance Engine Components Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the Consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and Corporations Regulations 2001.

*Material 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 2, there is inherent uncertainty whether the Company and its controlled entities 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 report

**BDO Kendalls Audit & Assurance (WA) Pty Ltd**

BDO Kendalls  


**Peter Toll**  
Director

Perth, Western Australia  
Dated this day 28h of February, 2008