Advanced Engine Components Limited ("ACE") has made a positive start to 2009 with an order for A$1.2 million of Natural Gas Vehicle System ("NGVS") kits and associated engine components from Aussen Engine (Dalian) Co Ltd ("Aussen") in China.

Approximately A$500,000 of the order will be delivered in each of February and March 2009 with the balance in April 2009. The majority of required components are currently held in inventory.

Aussen is building compressed natural gas ("CNG") engines for buses and trucks. The buses are for Wuhan Public Transport. Wuhan, with a population over 9 million, is the capital of Hubei Province. The trucks are for the Guizhou Province.

Negotiation for delivery of a further A$600,000 NGVS kits to Wuxi Xilian Diesel Engine Manufacturing Co Ltd ("Xilian") is in final stages of negotiation with delivery expected by 30 April 2009. The CNG engines, to be built by Xilian, are for the Nanjing Xincheng Bus Company. Nanjing is the capital of Jiangsu Province.

The proposed order from Nanjing Xincheng Bus Company follows that company's satisfaction with fifty buses delivered in April 2008. The fifty buses, built by Chongqing Hengtong Bus Company with Xilian ACE CNG engines, were driven 2,000 kilometres from Chongqing provincial level municipality to Nanjing for delivery.

Xiamen Kinglong Bus Company in Shaoxing has purchased and taken delivery of ten Weichai WT 615 liquefied natural gas ("LNG") engines from ACE. The buses are for Hangzhou Public Transportation Company ("HPT").

ACE has been negotiating with HPT since January 2007. The order follows extensive trials in a competitive tender situation. Throughout the trials the Weichai ACE LNG engine outperformed the competing LNG engines and had a comparable performance to the incumbent diesel engines.
With HPT operating over 3,500 vehicles, on more than 300 routes, covering more than 640 million passenger trips, further orders are imminent. Hangzhou, with a population in excess of 6.4 million people, is the capital of **Zhejiang Province**. Western Australia has a sister state relationship with Zhejiang Province.

Guiyang Public Traffic Company has purchased forty buses from Huanghai Bus Company in Dandong. The buses have FAW DDE 230 hp ACE LNG engines. The purchase follows eight months of competitive trials against other LNG engines.

The forty buses were driven 3,500kms, from Dandong in **Liaoning Province** to Guiyang in Guizhou Province, for delivery. To overcome the lack of LNG refuelling infrastructure, along the route, ACE built the engines to operate on CNG in Dandong and converted them to LNG upon delivery to Guiyang.

Guiyang, with a population in excess of 3.5 million, is the capital of **Guizhou Province**. Guiyang is recognised for its environmentally friendly policies and at the end of 2007 had over 80% of China’s 700 LNG buses.

Xilian has taken delivery of twenty two ACE NGVS kits for LNG bus engines for Haikou Public Transport Company. Haikou is the capital of **Hainan Province**.

At 31 December 2008 there were approximately 400 natural gas (“NG”) vehicles, using the ACE NGVS, in active service throughout China. The known or highly probable sales that have occurred since 31 December 2008 are certain to see the number of NG vehicles in China, utilising the ACE NGVS, at least double before 30 June 2009.

ACE has found the Chinese NG vehicle market in China to be influenced more by State owned public transport companies than the original equipment engine manufacturers. Having regard to the following, the ACE Board remain confident in China’s future sales demand for the ACE NGVS, spares and components:

(a) a growing number of NG vehicles in China utilising the ACE NGVS;
(b) an increasing range of bus companies and provinces utilising the ACE NGVS;
(c) a number of transport companies well advanced on competitive trials of NG vehicles incorporating the ACE NGVS;
(d) the competitive advantages the ACE NGVS has displayed in competitive tender situations;
(e) the close working relationship ACE has developed with Chinese original equipment engine manufacturer’s;
(f) the quality of ACE technical support and after sales service support;
(g) the rapidly expanding network of CNG refuelling stations eg Wuhan currently has 30 CNG refuelling stations with major CNG refuelling operators recognising a need for at least 80 refuelling stations to service Wuhan’s 6,000 buses and 20,000 taxis;
(h) positive steps being taken by China’s Government to stimulate the economy including expansion of the NG pipeline and support for the automotive industry; and
(i) central and local governments in China actively promoting the switch to clean NG energy for vehicles.

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