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ASX ANNOUNCEMENT

Rights Issue will strengthen Company during final stage of commercialisation

CMC Power Systems Limited (ASX:CSY) advises shareholders of its intention to offer a share rights issue to strengthen the Company during forthcoming commercialization.

The Company will mail all shareholders in mid April with a prospectus offering a one-for-one issue at 2.8 cents per share. For each share purchased, participating shareholders will also receive one free option exercisable at 10 cents on or before 31 May 2008. The closing date for entitlement (record date) will be 8 April 2004.

Company Secretary Tony Teng said today the Company would apply for the quotation of both the shares and the options, meaning shareholders would be able to realize value from the options as the share price rises at any time over the next four years.

"The issue price of 2.8 cents is a small discount on the present share price (3.3 cents), but the offer is attractive because of the four year option and the fact that the Company is now closer than ever to achieving its goal of commercialization," Mr Teng said.

SYTEC Engine and generators to be freighted from UK

"We have just received funds from our licensee in Malaysia to allow us to ship our VW Passat sedan powered by the 2.2 litre prototype SYTEC engine and a prototype of our electric generator based on the 500cc SYTEC engine from the UK to Malaysia to demonstrate to potential investors and customers.

"This is a highly significant step forward. For the past 15 months we have been unable to gain access to these important marketing tools because of a shortage of funds. Our licensee in Malaysia has now made funds available to partially clear our subsidiary's debt situation, thereby enabling us to regain control over the vehicle and generators.

"This is a strong indication of the faith they have in the future of this technology. As previously announced, they have secured a sales agreement with an Asian customer who requires 50,000 units valued at US$100 million over four years.

"To supply this customer, it is envisaged that the licensee company will receive loan funds from a Malaysian financial institution to allow it to complete development of the generator unit and to build an assembly plant and commence production.

"The Malaysian institution is enthusiastic about developing and producing a home-grown power generation product for the licensee's market areas comprising the ASEAN region, China and India. Power generators using SYTEC engines will have unique advantages of cost effectiveness and durability. The SYTEC four cylinder engine is much better balanced than conventional four cylinder engines, offering the possibility of creating four-cylinder power generators with capacities of three litres and above. This is a product no other manufacturer could match."

Mr Teng said a Government authority and an electric power utility had both expressed strong interest in the power generation product. The Passat vehicle and generator unit would be used to demonstrate the advantages of the SYTEC engine technology and to market the power generator unit to these and other potential customers in Malaysia, as well as to investors.

He said the Singapore company referred to in CMC's ASX announcement of 27 January had been unable to raise the required funding, but CMC was now in advanced discussions with two other groups of investors, one based in Singapore and the other in Kuala Lumpur.

"Both of these groups have strong connections with the Company, and we have a high degree of confidence that one or both of them will provide the necessary funding," he said.

Proposed Open Day in Sydney will demonstrate working prototype

Mr Teng also announced that a prototype electric generator powered by the SYTEC 500cc engine would be air freighted from the UK to Sydney for demonstration to shareholders at an Open Day in May timed to occur during the share rights issue.

"CMC has been fortunate in receiving assistance from a Sydney-based shareholder group with engineering expertise who are strongly committed to the Company's success," he said.

"On their own initiative, this group has taken a non-functioning display prototype into their workshop and done the necessary engineering work to convert it into a functioning unit.

"They will also carry out whatever work is necessary to prepare the newly-imported prototype for demonstration at the Open Day. A number of prototypes have already been tested by Cosworth Technology in the UK, but the availability of the units now for demonstration in Australia and Malaysia is an important milestone on our path to commercialization.

"A strong response from shareholders during this crucial period will enable CMC to ensure that we obtain optimum terms and conditions from any agreements we enter, so we will urge our shareholders to respond as strongly as possible to the forthcoming rights issue."

Authorised by Tony Teng, Company Secretary
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