CMC Power Systems Limited

ABN 50 008 924 570

and its controlled entities

(Subject to Deed of Company Arrangement)

Appendix 4E

Preliminary Final Report

Financial year ended 30 June 2004

Results for announcement to the market

	Up/Down	% Change	Full year ended 30 June 2004 A$'000
Revenues from ordinary activities	up/~~down~~	80% to	674
Loss from ordinary activities after tax attributable to members	up/~~down~~	N/A to	(15,877)
Loss from extraordinary items after tax attributable to members			-
Net Loss for the period attributable to members	up/~~down~~	N/A to	(15,877)

Dividends (distributions)	Amount per security	Franked amount per security
Final dividend	-¢	-¢
Interim dividend	-¢	-¢
Previous corresponding period	-¢	-¢

Record date for determining entitlements to the dividend: Not Applicable

Brief explanation of any of the figures reported above and short details of any bonus or cash issue or other item(s) of importance not previously released to the market:

Refer Directors' review within the attached Annual Financial Report.

NTA backing	Current period	Previous corresponding Period
Net tangible asset backing per ordinary security	$0.00	$0.016

Annual Meeting

The annual general meeting of the Company will be held in Sydney at a venue, date and time to be advised.

Approximate date the annual report will be available: The Annual Report will be posted onto the company's website www.cmcpower.com on 19 May 2005.

The Commentary on the results for the period is contained in the Annual Financial Report attached.

CMC POWER SYSTEMS LIMITED
ABN 50 008 924 570

AND ITS CONTROLLED ENTITIES

(Subject to Deed of Company Arrangement)

ANNUAL FINANCIAL REPORT

30 JUNE 2004

CMC Power Systems Limited
ABN 50 008 924 570
(Subject to Deed of Company Arrangement)

Directors' Review

Overview

As shareholders are well aware, 2003/2004 has been a very difficult year for CMC.

Since our last Annual General Meeting in November 2003, CMC continues to focus on its core competency namely the research & development and commercialisation of the Sytec 500cc engine for auxiliary power application and power generation. There is ongoing interest in the SYTEC engine as the main engine for vehicle however, this is a long process and CMC has identified electricity generation as the quickest route to market for its technology. The most pleasing thing was to see the strategy the Board had chosen – development of the Auxiliary Power Unit as the quickest route to market – was proving to be correct.

Shortly into the New Year, however, it became clear that there were problems in the implementation of this strategy. The technical milestones were not met on time and costs were incurred by the consolidated entity prior to committed funding being withdrawn by a Malaysian company. This left the consolidated entity with trade creditors of $2.3 million with no significant cash resources.

However due to the strenuous efforts of our team and our Malaysian partners, the consolidated entity identified promising sources of funds from Malaysia and Singapore. CMC issued a manufacturing licence to a Malaysian company, Sytec Technologies Sdn Bhd, entitling that company to sub-license CMC technology to manufacturers in the ASEAN region, India and the People's Republic of China. This company, headquartered in Kuala Lumpur, was extremely active in finding customers and we expected two major projects to be under way in the near future..

Decline in cash resources

Central to the commercialisation activity is the adequacy of cash to fund that process. The activity outlined above in endeavouring to commercialise the technology together with continuing fixed costs to run the business caused significant pressure on our cash resources.

In order to address the cash requirements of meeting our objective of commercialising the technology, the Company undertook to obtain the support of both existing shareholders and other parties. This was carried out by the Directors through:

- the issue of 966,470 converting notes to other parties at a principal value of $1.00 each. The notes were converted into ordinary shares in March 2004 on the basis of 20 shares for each note at the value of $0.05 per share and the issue of ordinary shares; and
- the issue of a further 14,666,655 ordinary shares to other parties raising a total of $1.6 million;
- the issuance of a prospectus for a non-renounceable rights issue to shareholders. ASIC issued a stop order in respect of the prospectus after subscriptions of $287,400 had been received. This amount was returned to shareholders after balance date.

The inability of the Company to attract additional equity funding and meet its obligations to creditors meant that the Directors had no choice but to appoint administrators to the Company.

Directors' Review (continued)

Voluntary administration

On 8 July 2004 Martin Green and Peter Krejci were appointed voluntary administrators of the company by resolution of directors pursuant to section 436A of the Corporations Act.

At a meeting of creditors on 4 August 2004, it was agreed that the Company execute a Deed of Arrangement. The Deed of Arrangement was executed with Ilham Interaktif Sdn Bhd (IISB) on 24 August 2004 and a notice under section 450B of the Corporations Act was sent to creditors. The effect of the Deed of Arrangement was to pass back to the Directors control of the day-to-day running of the Company.

The Deed of Arrangement allowed for IISB to loan the company $120,000 (cash) within 14 days and a further $500,000 in the form of an irrevocable letter of credit or bank guarantee payable in six (6) months from the execution of the Deed.

Alternative 1
These amounts were to be treated as a loan to the Company which could be converted into ordinary shares on approval of shareholders at $0.005 per ordinary share and free options on the basis of 1.5 options for every new share with such options to be issued on the same date. The period of the option to be at least two (2) years from the issue date and the exercise price shall be $0.02 cents exercisable at any time during the period of the options. If shareholders should not approve this, IISB will have rights to apply the loan funds toward the acquisition of all patents and intellectual property of the Company.

Alternative 2
Should IISB elect alternative 1 and should the Company be unable to obtain the approval of shareholders for the issue of the proposed shares and options, then the loan funds can be applied to the acquisition of all patents and intellectual property of CMC.

On 14 September 2004 all creditors of the company were advised to complete a formal proof of debt claim and return this to the administrators prior to 29 October 2004.

It is anticipated that the Deed of Arrangement will be effectuated by the voluntary administrator in coming months.

Financial result

The net loss from ordinary activities after income tax for the consolidated entity for the financial year ended 30 June 2004 was $15,877,000 (2003: $2,494,000).

The consolidated entity has incurred a loss for the financial year primarily due to the write down of intangible assets and capitalised engine development costs of $14,004,000 reflecting the difficulty associated with the commercialisation of the consolidated entity's technology. The directors have been prudent in valuing the intangible assets and have recorded them at $Nil value for accounting purposes.

The remainder of the loss relates to other administrative costs incurred.

Directors' Review (continued)

Outlook

Whilst the past year has been a difficult one, the Company has settled its financial position and will have repaid creditors to the extent set out in the Deed of Arrangement through funds provided by IISB. Significant challenges still lay ahead including:

- lifting of suspension of quotation to the Australian Stock Exchange;
- a review of the Company's strategic direction including the current position of the technology and new business opportunities; and
- obtaining a funding plan for the medium term.

Concluding comments

We wish to thank all members of the CMC team for their efforts and support during this difficult year. We also thank shareholders and creditors for their continuing support and hope to repay this support in the coming financial year.

Tony Teng

Executive Director/Company Secretary

CMC Power Systems Limited
ABN 50 008 924 570
(Subject to Deed of Company Arrangement)

Directors' Report

The directors present their report together with the financial report of CMC Power Systems Limited ("the Company") and of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2004 and the auditor's report thereon.

Directors

The directors at any time during or since the end of the financial year are:

Name and qualifications	Age	Experience and special responsibilities
Current Directors		
Dato' Dr. Haji Sallehuddin Kassim Non-Executive Director	53	Appointed a director on 16 January 2004. Dato' brings to the Board wide experience and contacts from a distinguished career in business in Malaysia spanning nearly three decades. He is Chairman and Director of several Malaysian companies and has been involved in engineering and management in the ship building, palm oil extraction, battery manufacturing and finance industries. Dato' Sallehudin has a Bachelor's degree in Mechanical Engineering (1974) and MBA (1986) from Monash University, Melbourne, and a PhD (1992) from Pacific Western University, Los Angeles, USA. He was conferred Dato' Paduka Tuanku Jaafar (DPTJ) in July 1995. Resident in Selangor, Malaysia, he is now on the Boards of three publicly listed companies in Malaysia, Keanamas Industries Berhad (Chairman), Promet Berhard (Director) and Bukit Katil Resources Berhad (Deputy Chairman). Other currently held appointments include Executive Chairman of Hikmat Prestasi Sdn Bhd, Director/Chairman of Riswan Security Sdn Bhd, Director/Chairman of Air Pollution Engineering Sdn Bhd., Director of Pakal Industries Berhad and Business Advisor to Besteel Engineering Sdn Bhd.
Mr Tony Sin Pyng Teng B.Econ., Grad.Dip.Fin. Mangt, CPA, FAICD, AFAIM Executive Director and Company Secretary	51	Appointed a director on 16 July 1997 and Secretary on 3 October 1997. Mr Teng is a Certified Practicing Accountant, a Fellow of the Australian Institute of Company Directors and an Associated Fellow of the Australian Institute of Management. Mr Teng has been employed by several manufacturing companies in senior accounting positions. Throughout the 1990s he worked full time as a management consultant, involved with mergers, acquisitions and corporate restructuring. Mr Teng currently coordinates the capital raising activities of the consolidated entity.

Directors' Report (continued)

Directors (*continued*)

Name and qualifications	Age	Experience and special responsibilities
Dato' Chuah Beng Hock Non-Executive Director	51	Appointed a director on 19 October 2004 Dato's Chuah's rise to prominence in business was charted by the extremely successful Melaka Mall project in Melaka, Malaysia. Since then Dato Chuah's expertise in corporate structures and finance had been much sought after. Dato' Chuah's current project is to help plan and obtain funding for a privatise Highway Project in Malaysia. Dato's Chuah believes his experience can help enhance the financial standing of CMC and that his network of contacts for businesses could bring in viable ventures to sustain CMC in the long term.
Mr Aundre Kok Onn Non-Executive Director	49	Appointed a director on 19 October 2004 A. Onn is a barrister at law (Lincoln's Inn) and has been practising as an advocate & solicitor of the High Court of Malaya for the past 15 years. His area of expertise is not only in litigation but also corporate advise principally in the area of corporate restructuring and international joint ventures.
Mr Augustine Chan Non-Executive Director	57	Appointed a director on 24 August 2004. Mr Chan is an entrepreneur with more than 30 years of experience in the hospitality and service industries. He was a director of Development for the Capitol Theatre and Capitol Square Project in Sydney. He was also a director of Retail Development for the Hordern Pavillion World Square Project. Mr Chan brings considerable experience and expertise in running successful projects and will assist the Company in identifying new business opportunities.
Former directors		
Mr Graham Harry Fountain C.Eng. MRINA, MSA, Finst.D Executive Director	70	Appointed a director on 24 September 1982 and Executive Chairman on 25 February 2003. Resigned on 16 January 2004.
Mr Frank Chuo Siong Choo Independent non-Executive Director	39	Director from 16 August 2002 to 24 August 2004.
Mr Thomas William Gosling Independent non-Executive Director	57	Director from 13 May 2004 to 24 August 2004.
Mr Zakie Bin Hj Ahmad Shariff B.Econ.(Hons), M.S. Accounting Alternate Director	46	Alternate director for Mr Tony S P Teng from 27 November 1997 to 24 August 2004.

Directors' Report (continued)

Directors' meetings

The number of directors' meetings and number of meetings attended by each of the directors of the Company during the financial year are:

Director	Directors' Meetings	
	No. of Meetings Attended	No. of Meetings held whilst in Office
Dato' Sallehuddin Kasim	10	10
Tony S P Teng	17	17
Graham H Fountain	7	7
Frank C S Choo	16	17
Thomas W Gosling	2	2
Zakie Bin Hj Ahmad Shariff (alternate to T S P Teng)	-	17

Corporate governance statement

Board of directors

Director education

The consolidated entity has an informal process to educate new directors about the nature of the business, current issues, the corporate strategy and the expectations of the consolidated entity concerning performance of directors. Directors also have the opportunity to visit consolidated entity facilities and meet with management to gain a better understanding of business operations.

Independent professional advice and access to Company information

Each director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the Chairperson, may seek independent professional advice from a suitably qualified adviser at the consolidated entity's expense. The director must consult with an advisor suitably qualified in the relevant field, and obtain the Chairperson's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the director is made available to all other members of the board.

Composition of the Board

The names of the directors of the Company in office at the date of this report are set out in this report. The composition of the board is determined using the following principles:

- a majority of independent non-executive directors;
- a majority of directors having extensive knowledge of the Company's industries, and those which do not, have extensive expertise in significant aspects of auditing and financial reporting, or risk management of large companies;
- be a non-executive independent director as Chairperson;

Directors' Report (continued)

Composition of the Board (continued)

An independent director is a director who is not a member of management (a non-executive director) and who:

- holds less than five % of the voting shares of the Company and is not an officer of, or otherwise associated, directly or indirectly, with a shareholder of more than five % of the voting shares of the Company;

- has not within the last three years been employed in an executive capacity by the Company or another group member, or been a director after ceasing to hold any such employment;

- within the last three years has not been a principal or employee of a material professional adviser or a material consultant to the Company or another group member;

- is not a material supplier or customer of the Company or another group member, or an officer of or otherwise associated, directly or indirectly, with a material supplier or customer;

- has no material contractual relationship with the Company or another group member other than as a director of the Company; and

- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

Nomination of directors

The Board oversees the appointment and induction process for directors and committee members, and the selection, appointment and succession planning process of the Company's Executive management team. The Board makes recommendations to the board on the appropriate skill mix, personal qualities, expertise and diversity of each position. When a vacancy exists or there is a need for particular skills, the board in consultation with the board determines the selection criteria based on the skills deemed necessary. The board then appoints the most suitable candidate. Board candidates must stand for election at the next general meeting of shareholders.

The Board annually reviews the effectiveness of the board, individual directors, and senior executives. The Board has not formalised policies for appointing directors and senior executives due to the size of the consolidated entity.

Remuneration report

The Board determines remuneration packages and policies applicable to the Executive management team, senior executives and directors themselves. It is also responsible for share option schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies.

Directors' Report (continued)

Remuneration policies

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives.

The remuneration structures explained below are designed to attract suitably qualified candidates, and to effect the broader outcome of achieving commercialisation of the consolidated entity is technology. The remuneration structures take into account:

- the overall level of remuneration for each director and executive;
- the executives' ability to control performance; and
- the amount of incentives within each executive's remuneration.

Directors' and senior executives' remuneration

Details of the nature and amount of each major element of the remuneration of each director of the Company and each of the five named officers of the Company and the consolidated entity receiving the highest remuneration are:

	Base remuneration (consulting fee) $	Bonuses $	Non-cash benefits $	Super contributions $	Options issued $	Retirement benefits $	Total $
Directors							
Non-executive							
T W Gosling	5,700	-	-	-	-	-	5,700
Dato' S Kasim	-	-	-	-	-	-	Nil
F C S Choo	-	-	-	-	-	-	Nil
A B H A Shariff	-	-	-	-	-	-	Nil
Executive							
T Teng	120,000	-	-	-	-	-	120,000
GH Fountain	95,500	-	-	-	-	-	95,500

Directors' Report (continued)

Audit Committee

Due to the size of the Board, the Company has not established an Audit Committee as the Board performs this role. The Board advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the consolidated entity.

The Board:

- reviews the annual, half-year and concise financial reports and other financial information distributed externally. This includes approving new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles, and assessing whether the financial information is adequate for shareholder needs;

- reviews the Company's policies and procedures for convergence with International Financial Reporting Standards for reporting periods beginning on 1 July 2005;

- assesses whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. The external auditor provides an annual declaration of independence which is consistent with Professional Statement F.1 of the Code of Professional Conduct as recognised by Australia's professional accounting bodies;

- reviews the nomination and performance of the external auditor. The external auditors engagement partner was last rotated in 2000;

- assesses the adequacy of the internal control framework and the Company's code of ethical standards;

- monitors the procedures to ensure compliance with the Corporations Act 2001 and the ASX Listing Rules and all other regulatory requirements; and

- addresses any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, ASX and financial institutions.

The Board reviews the performance of the external auditors on an annual basis and normally meets with them during the year to:

- discusses the external audit and internal audit plans, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed;

- reviews the half-year and preliminary final report prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings, and to recommend board approval of these documents, prior to announcement of results;

- finalises half-year and annual reporting to:

    - review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made;

    - review the draft financial report and recommend board approval of the financial report; and

- as required, to organise, review and report on any special reviews or investigations deemed necessary by the board.

Risk management

Oversight of the risk management system

The board oversees the establishment, implementation, and annual review of the Company's Risk Management System, including assessing, monitoring and managing operational, financial reporting, and compliance risks for the consolidated entity. The financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively. The operational and other compliance risk management have also been assessed and found to be operating efficiently and effectively. All risk assessments covered the whole financial year and the period up to the signing of the annual financial report for all material operations in the consolidated entity, and material associates and joint ventures.

Risk management and compliance and control

The consolidated entity strives to ensure that its products are of the highest standard. Towards this aim it has undertaken a program to achieve AS/NZS ISO 9002 accreditation for each of its business segments.

The board is responsible for the overall internal control framework, but recognises that no cost-effective internal control system will preclude all errors and irregularities.

Practices, have been established to ensure:

- capital expenditure and revenue commitments above a certain size obtain prior board approval;
- financial exposures are controlled, including the use of derivatives. Further details of the Company's policies relating to interest rate management, forward exchange rate management and credit risk management are included in the financial statements;
- occupational health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations;
- business transactions are properly authorised and executed;
- the quality and integrity of personnel (see below);
- financial reporting accuracy and compliance with the financial reporting regulatory framework (see below); and
- environmental regulation compliance (see below).

Quality and integrity of personnel

Written confirmation of compliance with policies in the Ethical Standards Manual is obtained from all operating units. Formal appraisals are conducted at least annually for all employees. Training and development and appropriate remuneration and incentives with regular performance reviews create an environment of co-operation and constructive dialogue with employees and senior management. A formal succession plan is also in place to ensure competent and knowledgeable employees fill senior positions when retirements or resignations occur.

Directors' Report (continued)

Financial reporting

Monthly actual results are reported against budgets approved by the directors and revised forecasts for the year are prepared regularly. Convergence with IFRS is a key current financial reporting project, and the financial statements will be prepared in accordance with these standards, beginning with the half-year ended 31 December 2005. One of the project's first tasks is to prepare an opening statement of financial position, under IFRS, as at 1 July 2004 (24 months prior to the first IFRS financial year end), to facilitate first year IFRS comparatives.

Ethical standards

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the consolidated entity.

Conflict of interest

Directors must keep the board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. The board has developed procedures to assist directors to disclose potential conflicts of interest.

Trading in general company securities by directors and employees

The key elements of the Trading in General Company Securities by Directors and Employees Policy set out in the Ethical Standards Manual are:

- identification of those restricted from trading – directors and senior executives (all employees from branch manager upwards) may acquire shares in the Company, but are prohibited from dealing in Company shares or exercising options:

Trading in general company securities by directors and employees

  - except between three and 30 days after either the release of the Company's half-year and annual results to the Australian Stock Exchange ("ASX"), the annual general meeting or any major announcement;
  - whilst in possession of price sensitive information not yet released to the market;

- raising the awareness of legal prohibitions including transactions with colleagues and external advisers;
- requiring details to be provided of intended trading in the Company's shares;
- requiring details to be provided of the subsequent confirmation of the trade; and
- identification of processes for unusual circumstances where discretions may be exercised in cases such as financial hardship.

Directors' Report (continued)

Communication with shareholders

The board provides shareholders with information using a comprehensive Continuous Disclosure Policy which includes identifying matters that may have a material effect on the price of the Company's securities, notifying them to the ASX.

The board encourages full participation of shareholders at the Annual General Meeting, to ensure a high level of accountability and identification with the consolidated entity's strategy and goals. Important issues are presented to the shareholders as single resolutions. To assist shareholders in communicating issues to the board, reply paid question cards are issued with the annual report.

The shareholders are requested to vote on the appointment and aggregate remuneration of directors, the granting of options and shares to directors and changes to the Constitution. Copies of the Constitution are available to any shareholder who requests it.

Review and results of operations

The net loss from ordinary activities after income tax for the consolidated entity for the financial year ended 30 June 2004 was $15,877,000 (2003: $2,494,000).

The consolidated entity has incurred a loss for the financial year primarily due to the write down of intangible assets and capitalised engine development costs of $13,795,000 reflecting the difficulty associated with the commercialisation of the consolidated entity's technology. The directors have been prudent in valuing the intangible assets and have recorded them at $Nil value for accounting purposes.

The remainder of the loss relates to other administrative costs incurred with no revenue generated.

Dividends

No dividend has been declared or paid by the Company since the end of the previous financial year. The directors do not recommend the payment of a dividend in respect of the current financial year.

State of affairs

Significant changes in the state of affairs of the consolidated entity during the financial year were as follows:

- The Company made a cash issue of 33,996,055 ordinary shares amounting to $1,658,000 to provide additional funds for the commercialisation of its Scotch Yoke technology.

- The consolidated entity has written down its Scotch Yoke technology intangible asset by $6,894,000, capitalised engine development costs by $6,901,000 and plant and equipment by $209,000 during the financial year.

- During the financial year the consolidated entity issued a prospectus for a non-renounceable rights issue. ASIC issued a stop order in respect of the prospectus after subscriptions of $287,400 had been received. This amount which is include in cash assets and payables at 30 June 2004 is not available for use by the consolidated entity and was returned to shareholders after balance date.

Environmental regulation

The consolidated entity's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. However, the Board believes that the consolidated entity has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the consolidated entity.

Directors' Report (continued)

Events subsequent to balance date

On 8 July 2004 Martin Green and Peter Krejci were appointed voluntary administrators of the company by resolution of directors pursuant to section 436A of the Corporations Act.

At a meeting of creditors on 4 August 2004, it was agreed that the Company execute a Deed of Arrangement. The Deed of Arrangement was executed with Ilham Interaktif Sdn Bhd (IISB) on 24 August 2004 and a notice under section 450B of the Corporations Act was sent to creditors. The effect of the Deed of Arrangement was to pass back to the Directors control of the day-to-day running of the Company.

The Deed of Arrangement allowed for IISB to loan the company $120,000 (cash) within 14 days and a further $500,000 in the form of an irrevocable letter of credit or bank guarantee payable in six (6) months from the execution of the Deed.

Alternative 1
These amounts were to be treated as a loan to the Company which could be converted into ordinary shares on approval of shareholders at $0.005 per ordinary share and free options on the basis of 1.5 options for every new share with such options to be issued on the same date. The period of the option to be at least two (2) years from the issue date and the exercise price shall be $0.02 cents exercisable at any time during the period of the options. If shareholders should not approve this, IISB will have rights to apply the loan funds toward the acquisition of all patents and intellectual property of the Company.

Alternative 2
Should IISB elect alternative 1 and should the Company be unable to obtain the approval of shareholders for the issue of the proposed shares and options, then the loan funds can be applied to the acquisition of all patents and intellectual property of CMC.

On 14 September 2004 all creditors of the company were advised to complete a formal proof of debt claim and return this to the administrators prior to 29 October 2004.

It is anticipated that the Deed of Arrangement will be effectuated by the voluntary administrator in coming months.

Directors' Report (continued)

Directors' interests

The relevant interest of each director in the shares or options issued by the Company, as notified by the directors to the Australian Stock Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	Ordinary shares	
	Direct Interest	**Indirect Interest**
Tony S P Teng	1,791,606	-

Indemnification and insurance of officers and auditors

Indemnification

Since the end of the previous financial year, the Company has not indemnified or made a relevant agreement for indemnifying against a liability any person who is or has been an officer or auditor of the Company.

Insurance premiums

The directors' and officers' liability and legal expenses' insurance contracts expired on 1 March 2002. Given the current climate surrounding indemnity insurance, CMC Power Systems Limited has been unable to renew their contracts to the date of this report.

Rounding off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Dated at Sydney this 29th April 2005

Signed in accordance with a resolution of the directors:

Tony S P Teng
Director

CMC Power Systems Limited
and its controlled entities
(Subject to Deed of Company Arrangement)

Statements of Financial Performance
For the year ended 30 June 2004

	Note	Consolidated		The Company	
		2004 $'000	2003 $'000	2004 $'000	2003 $'000
Total revenue from ordinary activities	2	674	375	674	99
Expenses from ordinary activities:					
Research and development expenses		(814)	(1,549)	(814)	(1,549)
Marketing expenses		(198)	(300)	(132)	(300)
Administrative expenses		(1,530)	(1,002)	(1,323)	(1,029)
Bad and doubtful debts		-	-	(4,934)	-
Borrowing costs		(5)	(18)	(4)	(13)
Write down of non-current assets to recoverable amount		(14,004)	-	(7,103)	-
Amount set aside to provision for diminution of investments		-	-	(728)	-
Loss from ordinary activities before related income tax benefit	3	(15,877)	(2,494)	(14,364)	(2,792)
Income tax benefit relating to ordinary activities	5	-	-	-	-
Net loss	16	(15,877)	(2,494)	(14,364)	(2,792)
Basic and diluted loss per ordinary share	23	($0.06)	($0.01)		

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 18 to 46.

CMC Power Systems Limited
and its controlled entities
(Subject to Deed of Company Arrangement)

Statements of Financial Position
As at 30 June 2004

	Note	Consolidated		The Company	
		2004 $'000	2003 $'000	2004 $'000	2003 $'000
Current assets					
Cash assets		546	319	546	319
Receivables	6	18	70	18	70
Total current assets		564	389	564	389
Non-current assets					
Receivables	6	-	-	13,875	18,709
Other financial assets	7	-	-	-	728
Plant and equipment	8	22	377	-	347
Intangible assets	9	-	6,894	-	6,894
Other	10	-	6,901	-	-
Total non-current assets		22	14,172	13,875	26,678
Total assets		586	14,561	14,439	27,067
Current liabilities					
Payables	11	3,570	3,161	1,632	1,393
Interest bearing liabilities	12	5	104	-	100
Provisions	13	28	25	28	25
Total current liabilities		3,603	3,290	1,660	1,518
Non current liabilities					
Payables	11	-	-	14,875	14,875
Interest bearing liabilities	12	18	23	-	-
Total non-current liabilities		18	23	14,875	14,875
Total liabilities		3,621	3,313	16,535	16,393
Net (liabilities)/assets		(3,035)	11,248	(2,096)	10,674
(Deficiency)/equity					
Contributed equity	14	32,716	31,122	32,716	31,122
Reserves	15	-	-	-	-
Accumulated losses	16	(35,751)	(19,874)	(34,812)	(20,448)
Total (deficiency)/equity		(3,035)	11,248	(2,096)	10,674

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 18 to 46.

CMC Power Systems Limited
and its controlled entities
(Subject to Deed of Company Arrangement)

Statements of Cash Flows
For the year ended 30 June 2004

	Note	Consolidated		The Company	
		2004	2003	2004	2003
		$'000	$'000	$'000	$'000
Cash flows from operating activities					
Cash payments in the course of operations		(1,933)	(5,786)	(1,937)	(5,829)
Interest received		23	44	23	44
Research and development tax refund		651	-	651	
Income tax paid		-	(25)	-	-
Net cash used in operating activities	22(b)	(1,259)	(5,767)	(1,263)	(5,785)
Cash flows from investing activities					
Payments for plant and equipment		(4)	(60)	(4)	(51)
Net cash used in investing activities		(4)	(60)	(4)	(51)
Cash flows from financing activities					
Net proceeds from share issues		628	3,417	628	3,417
Net proceeds from issuing of converting notes		966	-	966	-
Finance lease payments		(104)	(151)	(100)	(142)
Net cash provided by financing activities		1,490	3,266	1,494	3,275
Net increase/(decrease) in cash held		227	(2,561)	227	(2,561)
Cash at the beginning of the financial year		319	2,880	319	2,880
Cash at the end of the financial year	22(a)	546	319	546	319

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 18 to 46.

1 Statement of significant accounting policies

The significant policies which have been adopted in the preparation of this financial report are:

a) Basis of preparation and going concern

The financial report is a general purpose financial report, which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and, except where there is a change in accounting policy, are consistent with those of the previous year.

The financial statements have also been prepared on the going concern basis of accounting, which assumes that the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

For the year ended 30 June 2004, the consolidated entity recorded a loss of $15,877,000 (2003:$2,494,000). In addition, the consolidated entity has net current liabilities of $3,326,000 as at 30 June 2004 after deducting cash not available for use by the consolidated entity detailed in Note 22 (c) to the financial statements (2003:$2,901,000). The Directors nevertheless believe that it is appropriate to prepare the financial report on a going concern basis due to the voluntary administration detailed in Note 27 to the financial statements.

On 8 July 2004 Martin Green and Peter Krejci were appointed voluntary administrators of the Company by resolution of directors pursuant to section 436A of the Corporations Act.

At a meeting of creditors on 4 August 2004, it was agreed that the Company execute a Deed of Arrangement. The Deed of Arrangement was executed on 24 August 2004 and a notice under section 450B of the Corporations Act was sent to creditors. The Deed of Arrangement allowed for Ilham Interaktif Sdn Bhd (IISB) to loan the company $120,000 within 14 days and a further $500,000 within 6 months. These amounts were to be treated as a loan to the Company which could be converted into ordinary shares on approval of shareholders at $0.005 per ordinary share. If shareholders should not approve this, IISB will have rights to purchase the intellectual property rights of the Company.

The directors and IISB are presently reviewing the Company's strategic direction including the current position of the technology and new business opportunities. This review is not yet at a stage that is advanced so as to allow the directors to communicate with shareholders. In addition, funding requirements have yet to be determined.

The ability of the Company and consolidated entity to continue as going concerns is dependent upon the availability of adequate funding and the success of business opportunities that the directors decide to pursue in the future.

In the event that the consolidated entity is unable to access the funding required, there is a significant uncertainty whether it will be able to continue as a going concern and therefore whether the Company and the consolidated entity can realise its assets and extinguish its liabilities at the amounts stated in the statement of financial position. In this situation, the going concern basis would not be appropriate.

1. Statement of significant accounting policies (*continued)*

b) Principles of consolidation

Controlled entities

The financial statements of controlled entities are included from the date control commences until the date control ceases.

Transactions eliminated on consolidation

Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

c) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority. Exchanges of goods and services of the same nature and value without any cash consideration are not recognised as revenues.

Interest revenue

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

Sale of non-current assets

The gross proceeds of non-current asset sales are included as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal

d) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the ATO are classified as operating cash flows.

1. Statement of significant accounting policies (*continued*)

e) Foreign currency

Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the date of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change.

Translation of controlled foreign operations

The assets and liabilities of the foreign controlled operation, (being an integrated foreign operation) are translated using the temporal method. Monetary assets and liabilities are translated into Australian currency at rates of exchange current at reporting date, while non-monetary items and revenue and expense items are translated at exchange rates current when the transactions occurred. Exchange differences arising on translation are brought to account in the statement of financial performance.

For integrated operations the translated amounts for non-monetary assets, are compared to recoverable amounts translated at spot rates at reporting date and any excess is expensed.

f) Derivatives

The consolidated entity is exposed to changes in interest rates and foreign exchange rates.

The consolidated entity does not use derivative financial instruments to hedge cash flows subject to interest rate and foreign exchange rate risks. Derivative financial instruments are not held for speculative purposes.

g) Borrowing costs

Borrowing costs include interest and lease finance charges. Borrowing costs are expensed as incurred.

h) Taxation

The consolidated entity adopts the income statement liability method of tax effect accounting.

Income tax expense/(benefit) is calculated on operating profit/(loss) adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain. The tax effect of capital losses is not recorded unless realisation is virtually certain.

1 Statement of significant accounting policies (*continued*)

i) Acquisitions of assets

All assets acquired including plant and equipment and intangible assets are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

Expenditure is only recognised as an asset when the entity controls future economic benefits as a result of the costs incurred, it is probable that those future economic benefits will eventuate, and the costs can be measured reliably. Costs attributable to feasibility and alternative approach assessments are expensed as incurred.

Research and development costs

Research and development expenditure is expensed as incurred, except to the extent that its recoverability is assured beyond any reasonable doubt, in which case it is deferred.

Costs associated with the design, building and testing of engine prototypes paid to third party engine developers are deferred to the extent that the recoverability of such costs is assured beyond any reasonable doubt. These costs are not amortised until the technology is successfully commercialised. Amortisation will then be charged over the period future economic benefits are expected to arise. The carrying value of deferred expenditure is reviewed at each reporting date in accordance with Note 1(n).

j) Use and revision of accounting estimates

The preparation of the financial report requires the making of estimations and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses and disclosure of contingent liabilities. The estimate and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

k) Receivables

The collectability of debts is assessed at balance date and specific provision is made for any doubtful accounts.

Trade debtors

Trade debtors to be settled within 30 days are carried at amounts due.

1 Statement of significant accounting policies (*continued*)

l) Investments

Controlled entities

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount.

m) Leased assets

Leases under which the consolidated entity assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases

A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease. Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are expensed. Contingent rentals are expensed as incurred.

n) Recoverable amount of non-current assets valued on cost basis

The carrying amounts of non-current assets valued on the cost basis are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is expensed in the net profit or loss in the reporting period in which it occurs.

Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets.

In assessing recoverable amounts of non-current assets the relevant cash flows have not been discounted to their present value, except where specifically stated.

1 Statement of significant accounting policies (*continued*)

o) Depreciation and amortisation

Useful lives

Items of plant and equipment have limited useful lives and are depreciated/amortised using the straight line and diminishing value methods over their estimated useful lives, with the exception of finance lease assets which are amortised over the term of the relevant lease, or where it is likely the consolidated entity will obtain ownership of the asset, the life of the asset.

Assets are depreciated or amortised from the date of acquisition.

Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only.

The depreciation/amortisation rates for each class of asset are as follows:

	2004	**2003**
Plant and equipment		
Straight line	20.0%	20.0%
Diminishing value	15%-37.5%	15%-37.5%
Leased plant and equipment		
Diminishing value	33.3%-40.0%	33.3%-40.0%

p) Payables

Liabilities are recognised for amounts to be paid in the future for goods and services received. Trade accounts payable are normally settled within 90 days.

q) Employee benefits

Wages, salaries and annual leave

Liabilities for employee benefits to wages, salaries and annual leave represent present obligations resulting from employees' services provided up to the balance date, calculated at undiscounted amounts based on expected wage and salary rates including related on-costs.

Non-accumulating non-monetary benefits are expensed based on the net marginal cost to the consolidated entity as the benefits are taken by the employees.

Long service leave

The provision for employee benefits to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided up to reporting date.

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government bonds at reporting date which most closely match the terms of maturity of the related liabilities. The unwinding of the discount is treated as long service leave expense.

1 Statement of significant accounting policies (*continued*)

q) Employee benefits (continued)

Superannuation plans

The Company and its controlled entities contribute to several defined contribution superannuation plans. Contributions are charged against income as they are made. Further information is set out in Note 18.

r) Share issue costs

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relates.

s) Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net loss attributable to members of the parent entity for the reporting period, after excluding costs of servicing equity by the weighted average number of ordinary shares of the Company.

2 Revenue from ordinary activities

	Consolidated		The Company	
Other revenues:				
From operating activities				
Interest				
Other parties	23	44	23	44
Net foreign exchange gain	-	331	-	55
Research and development cash offset grant	651	-	651	-
Total other revenues	674	375	674	99
Total revenue from ordinary activities	674	375	674	99

		Consolidated		The Company	
		2004 $'000	**2003 $'000**	**2004 $'000**	**2003 $'000**
3	**Loss from ordinary activities before related income tax benefit**				
(a)	**Individually significant expenses/(revenues) included in loss from ordinary activities before income tax benefit**				
	Net foreign exchange loss/(gain)	550	(331)	4	(55)
	Net bad and doubtful debts expense including movements in provision for doubtful debts	-	-	4,934	-
	Amount set aside to provision for diminution of investments	-	-	728	-
	Write down of non-current assets to recoverable amount	14,004	-	7,103	-
(b)	**Loss from ordinary activities before income tax benefit has been arrived at after charging/(crediting) the following items:**				
	Depreciation of: Plant and equipment	110	119	109	116
	Amortisation of: Leased plant and equipment	35	97	29	90
	Total depreciation and amortisation	145	216	138	206
	Borrowing costs: Other parties - Finance charges on capitalised leases	5	18	4	13
	Net expense from movements in provision for: Employee benefits	3	12	3	12
	Operating lease rental expense: Minimum lease payments	-	33	-	33
	Research and development expenditure: Expensed as incurred	814	1,549	814	1,549
	Loss on disposal of non-current assets	5	-	4	-

	Consolidated 2004 $	Consolidated 2003 $	The Company 2004 $	The Company 2003 $
4 Auditor's remuneration				
Audit services:				
Auditors of the Company – KPMG				
Audit and review of the financial reports	32,500	50,000	32,500	50,000
Other services:				
Auditors of the Company – KPMG				
Other assurance services	-	12,500	-	12,500
Taxation services	85,700	9,000	85,700	9,000
	118,200	71,500	118,200	71,500

5 Taxation

(a) Income tax benefit

	Consolidated 2004 $	Consolidated 2003 $	The Company 2004 $	The Company 2003 $
Prima facie income tax benefit calculated at 30% (2003: 30%) on the loss from ordinary activities	(4,763)	(748)	(4,309)	(838)
Decrease in income tax benefit due to:				
Non-deductible expenses	3,639	34	3,138	34
Future income tax benefit not brought to account	1,124	714	1,171	804
Income tax benefit attributable to operating loss from ordinary activities	-	-	-	-

5 Taxation (continued)

(b) Future income tax benefit not taken to account

The potential future income tax benefit in a controlled entity, which is a company, arising from tax losses and timing differences has not been recognised as an asset because recovery of tax losses is not virtually certain and recovery of timing differences is not assured beyond any reasonable doubt:

	Consolidated		The Company	
	2004	**2003**	**2004**	**2003**
	$'000	**$'000**	**$'000**	**$'000**
Tax losses carried forward	6,403	5,279	5,818	4,647
Timing differences	8	8	8	8
	6,411	5,287	5,826	4,655

The potential future income tax benefit will only be obtained if:

(i) the relevant company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised, or the benefit can be utilised by another company in the consolidated entity in accordance with Division 170 of the Income Tax Assessment Act 1997;

(ii) the relevant company and/or the consolidated entity continues to comply with the conditions for deductibility imposed by the law; and

(iii) no changes in tax legislation adversely affect the relevant company and/or the consolidated entity in realising the benefit.

(c) Dividend franking account

	The Company	
	2004	**2003**
	$'000	**$'000**
30% franking credits available to shareholders of CMC Power Systems Limited for subsequent financial years	101	101

The above available amounts are based on the balance of the dividend franking account at year-end. The ability to utilise the franking account credits is dependent upon there being sufficient available profits to declare dividends.

	Consolidated		The Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
6 Receivables				
Current				
Sundry debtors	18	70	18	70
Amount owing by controlled entity	-	-	291	283
Less: Provision for doubtful debtors	-	-	(291)	(283)
	18	70	18	70
Non-current				
Amount owing by controlled entity	-	-	6,486	6,394
Less: Provision for doubtful debts	-	-	(6,486)	(1,560)
Promissory note receivable from controlled entity	-	-	13,875	13,875
	-	-	13,875	18,709

The promissory note and amount owing by controlled entity have no set repayment terms, do not attract interest charges and are unsecured.

	Consolidated		The Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
7 Other financial assets				
Non-current				
Investments in controlled entities				
Unlisted shares – at cost	-	-	13,875	13,875
Less: Provision for diminution	-	-	(13,875)	(13,147)
	-	-	-	728

	Consolidated		The Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
8 Plant and equipment				
Plant and equipment				
At cost	839	461	826	448
Accumulated depreciation	(835)	(227)	(826)	(220)
	4	234	-	228
Leased plant and equipment				
At capitalised cost	32	415	-	382
Accumulated amortisation	(14)	(272)	-	(263)
	18	143	-	119
Total plant and equipment – net book value	22	377	-	347

Reconciliations

Reconciliations of the carrying amounts for each class of plant and equipment are set out below:

Plant and equipment				
Carrying amount at beginning of year	234	293	228	293
Additions	4	60	4	51
Transferred from leased plant and equipment	90	-	90	-
Disposal	(5)	-	(4)	-
Depreciation	(110)	(119)	(109)	(116)
Write down to recoverable amount	(209)	-	(209)	-
Carrying amount at end of year	4	234	-	228
Leased plant and equipment				
Carrying amount at beginning of year	143	240	119	209
Transferred to plant and equipment	(90)	-	(90)	-
Amortisation	(35)	(97)	(29)	(90)
Carrying amount at end of year	18	143	-	119

		Consolidated		The Company	
		2004	2003	2004	2003
		$'000	$'000	$'000	$'000
9	**Intangible assets**				
	Patents and industrial property rights – at cost	6,894	6,894	6,894	6,894
	Less: write down to recoverable amount	(6,894)	-	(6,894)	-
	Carrying amount at end of year	-	6,894	-	6,894

The recovery of the value attributed to the patents and industrial property rights is dependent upon the successful commercial exploitation or sale of the Company's technology. Due to uncertainty regarding commercial exploitation, the intangible asset has been written off in the current financial year.

		Consolidated		The Company	
		2004	2003	2004	2003
		$'000	$'000	$'000	$'000
10	**Other non-current assets**				
	Deferred engine development costs	6,901	6,901	-	-
	Less: write down to recoverable amount	(6,901)	-	-	-
	Carrying amount at end of year	-	6,901	-	-

The recovery of the value attributed to the deferred engine development cost is dependent upon the successful commercial exploitation or sale of the Company's technology. Due to uncertainty regarding commercial exploitation, this asset has been written off in the current financial year.

		Consolidated		The Company	
		2004	2003	2004	2003
		$'000	$'000	$'000	$'000
11	**Payables**				
	Current				
	Creditors and accruals	3,570	3,161	1,632	1,393
	Non current				
	Promissory note payable to controlled entity	-	-	13,875	13,875
	Amount owing to controlled entity	-	-	1,000	1,000
		-	-	14,875	14,875

The promissory note and amount payable to a controlled entity have no set repayment terms, do not attract interest charges and are unsecured.

	Consolidated		The Company	
	2004 $'000	**2003 $'000**	**2004 $'000**	**2003 $'000**
12 Interest bearing liabilities				
Current				
Lease liabilities - secured	5	104	-	100
Non Current				
Lease liabilities - secured	18	23	-	-

Lease liabilities have been secured against short-term bank deposits held by the consolidated entity.

	Consolidated		The Company	
	2004 $'000	**2003 $'000**	**2004 $'000**	**2003 $'000**
13 Provisions				
Current				
Employee benefits	28	25	28	25
14 Contributed equity				
Share capital 302,477,835 (2003: 268,481,780) ordinary shares, fully paid	32,716	31,122	32,716	31,122
Movements in ordinary share capital				
Balance at the beginning of the financial year	31,122	27,705	31,122	27,705
33,996,055 (2003: 36,577,145) Shares issued for cash	692	3,631	692	3,631
Converting notes converted during the year into ordinary share capital	966	-	966	-
Share issue costs	(64)	(214)	(64)	(214)
Balance at end of the financial year	32,716	31,122	32,716	31,122

14 Contributed equity (continued)

	Consolidated 2004 $'000	Consolidated 2003 $'000	The Company 2004 $'000	The Company 2003 $'000
Movements in converting notes				
Balance at the beginning of the financial year	-	-	-	-
Equity portion of 966,470 (2003: Nil) converting notes issued during the year	966	-	966	-
Converting notes converted during the year into ordinary share capital	(966)	-	(966)	-
Balance at end of the financial year	-	-	-	-

On 30 September 2003, the Company issued 966,470 converting notes at a principal value of $1.00 each. The notes had a mandatory conversion date of 1 March 2004 on the basis of 20 shares for each note at the value of $0.05 per share. These notes were converted into ordinary shares in March 2004.

On 30 September 2003, the Company also granted options over 20,329,400 shares exercisable at a price of $0.10 at any time up to the expiry date of 30 September 2004 and 20,329,400 options exercisable at a price of $0.20 at any time up to 30 September 2006.

Terms and conditions

Ordinary shares

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder meetings.

In the event of winding up of the Company, ordinary shareholders rank after creditors and are fully entitled to any proceeds on liquidation.

Converting notes

The converting notes had a mandatory conversion date of 1 March 2004 on the basis of 20 shares for each note at the value of $0.05 per share.

Note holders were not entitled to receive dividends as declared from time to time and were not entitled to vote at shareholder meetings.

In the event of winding up of the Company, note holders ranked equally with other unsecured creditors but above ordinary shareholders and were entitled to proceeds on liquidation only to the extent of the face value of the notes and any accumulated interest.

	Consolidated		The Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
15 Reserves				
Option premium	-	-	-	-
Movements during the year				
Option premium				
Balance at beginning of year	-	120	-	120
Transfer to accumulated losses	-	(120)	-	(120)
Balance at end of year	-	-	-	-

Nature and purpose of reserves

Option premium

The option premium reserve relates to amounts paid by third parties to the Company to receive options in respect of ordinary shares. The options to which the reserve relates expired on 31 July 2002. Accordingly, amounts in the option premium reserve have been transferred to accumulated losses.

	Consolidated		The Company	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000
16 Accumulated losses				
Accumulated losses at beginning of year	(19,874)	(17,500)	(20,448)	(17,776)
Transfer from option premium reserve	-	120	-	120
Net loss	(15,877)	(2,494)	(14,364)	(2,792)
Accumulated losses at end of year	(35,751)	(19,874)	(34,812)	(20,448)

17 Share options

At 30 June 2004, options issued by the Company amount to 40,658,800 (2003: Nil). Options were issued during the financial year as set out in Note 14 to the financial statements.

	Consolidated		The Company	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
18 Employee benefits				
Aggregate liability for employee benefits, including on-costs				
Current	28	25	28	25
Number of employees				
Number of employees at year end	5	9	5	9

Superannuation plans

The consolidated entity contributes to several defined contribution employee superannuation plans. Details of contributions to the defined contribution plans during the year and contributions payable at 30 June 2004 are as follows:

	Consolidated		The Company	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
Employer contributions to the plans	44	67	44	67
Employer contributions payable to the plans at reporting date	100	56	100	56

19 Director and executive disclosures

Remuneration of specified directors and specified executives by the consolidated entity

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The Board of Directors reviews the appropriateness of remuneration packages, given trends in comparative companies. Remuneration packages include a mix of fixed remuneration, including non-monetary benefits and performance-based remuneration.

The remuneration structures explained below are designed to attract suitably qualified candidates, and to effect the broader outcome of increasing shareholder value.

Senior executives may receive cash bonuses based on the achievement of specific performance hurdles. The performance hurdles are a blend of the consolidated entity's and individual performance results. There is no separate profit-share plan.

Non-executive directors do not receive bonuses nor were they issued options on securities during the year. Directors' fees cover all main board activities.

Specified executives have employment agreements in place with the consolidated entity. The terms of these employment agreements allow for termination benefits of between 1 – 6 months.

Amounts may be payable in excess of the above subject to mutual agreement and negotiation between the parties.

The following table provides the details of all directors of the Company ("specified directors") and the five or more executives of the consolidated entity with the greatest authority ("specified executives") and the nature and amount of the elements of their remuneration for the year ended 30 June 2004.

19 Director and executive disclosures (continued)

Remuneration of specified directors and specified executives by the consolidated entity (continued)

	Primary			Post Employment	Equity	Other compensation		
	Salary & Fees $	Bonus $	Non-monetary benefits $	Super-annuation Benefits $	Value of options $	Termination benefits $	Other benefits $	Total $
Specified directors								
Non-executive								
Dato' Dr HS Kassim	-	-	-	-	-	-	-	-
Mr FCS Choo	-	-	-	-	-	-	-	-
Mr TW Gosling	5,700	-	-	500	-	-	-	6,200
Mr ZBHA Shariff	-	-	-	-	-	-	-	-
Executive								
Current								
Mr TSP Teng	120,000	-	-	-	-	-	-	120,000
Former								
Mr GH Fountain	95,500	-	-	-	-	-	-	95,500
Total, all specified executives	221,200	-	-	500	-	-	-	221,700

20 Segment reporting

Business segments

The operations of the consolidated entity include the research and development of an internal combustion engine using the Scotch Yoke Technology and the marketing of that technology.

Geographical segments

The consolidated entity operates predominantly in Australia.

21 Related parties

Directors

The names of each person holding the position of director of CMC Power Systems Limited during the financial year are:

G H Fountain, T S P Teng, T Gosling, Frank C S Choo, Dato' Sallehuddin Kasim and Z Shariff.

G H Fountain resigned on 16 January 2004. T Gosling, Frank C S Choo and Z Shariff resigned on 24 August 2004.

The aggregate amount of remuneration received or receivable by the directors is disclosed in Note 19.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests subsisting at year-end.

Directors' holdings of shares and share options

The interest of directors of the reporting entity and their director related entities in shares and share options of entities within the consolidated entity at year-end are set out below:

	Consolidated Number Held	
	2004	**2003**
CMC Power Systems Limited		
Ordinary shares	3,466,605	456,212
Options over ordinary shares	-	-

21 Related parties (continued)

Directors' transactions in shares and share options

During the year, CMC Power Systems Limited issued 1,581,000 ordinary shares to directors and their director-related entities at 11 cents per share.

Directors' transactions with the Company or its controlled entities

The aggregate amounts recognised during the year relating to directors and director-related entities were as follows:

		Consolidated		The Company	
		2004	2003	2004	2003
Director	**Transaction**	$	$	$	$
Current					
Tony S P Teng	Consulting fees	120,000	120,000	120,000	120,000
Former					
Teng Beng Teo	Consulting fees	-	30,000	-	30,000
Ernst S H Tan	Consulting fees	-	20,000		20,000
Graham H Fountain	Consulting fees	95,500	75,000	95,500	75,000

The terms and conditions of the transactions with the directors and their director-related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

These amounts have been included as directors' remuneration in Note 19.

Receivables/payables

Amounts receivable from and amounts payable to wholly owned controlled entities are set out in Notes 6 and 11, respectively.

Percentage of equity interest

Details of interests in wholly owned controlled entities are set out in Note 26.

22 Notes to the statements of cash flows

(a) Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand and cash at bank and short term deposits at call. Cash as at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the statements of financial position as follows:

	Consolidated		The Company	
	2004 $'000	**2003 $'000**	**2004 $'000**	**2003 $'000**
Cash at bank and on hand	259	138	259	138
Cash held for refund (Refer note 22(c))	287	-	287	-
Short term deposits	-	181	-	181
	546	319	546	319

(b) Reconciliation of loss from ordinary activities after income tax to net cash used in operating activities

	Consolidated 2004 $'000	Consolidated 2003 $'000	The Company 2004 $'000	The Company 2003 $'000
Loss from ordinary activities after income tax	(15,877)	(2,494)	(14,364)	(2,792)
Add items classified as investing/financing activities:				
Finance charges on capitalised leased assets	5	18	4	13
Add/(less) non cash items:				
Amortisation	35	97	29	90
Depreciation	110	119	109	116
Amounts set aside to provisions	3	(63)	4,937	(63)
Amount set aside to provision for diminution	-	-	728	-
Write down of non-current assets to recoverable amount	14,004	-	7,103	-
Net cash used in operating activities before changes in assets and liabilities	(1,720)	(2,323)	(1,454)	(2,636)
Change in assets and liabilities				
(Increase)/decrease in receivables	52	29	(48)	29
(Increase)/decrease in capitalised research and development	-	(5,822)	-	(3,755)
Increase/(decrease) in payables	409	2,374	239	577
(Decrease)/increase in income taxes payable	-	(25)	-	-
Net cash used in operating activities	(1,259)	(5,767)	(1,263)	(5,785)

22 Notes to the statements of cash flows

(c) Cash not available for use

During the financial year the consolidated entity issued a prospectus for a non-renounceable rights issue. ASIC issued a stop order in respect of the prospectus after subscriptions of $287,400 had been received. This amount which is included in cash assets and payables at 30 June 2004 is not available for use by the consolidated entity and was returned to shareholders after balance date.

(d) Non-cash financing activities

In March 2004, converting notes issued to third parties amounting to $966,470 were converted into ordinary shares.

This transaction is not reflected in the statements of cash flows.

23 Loss per share

Classification of securities as ordinary shares

All ordinary shares have been classified as ordinary securities and included in basic earnings per share.

Earnings

Earnings used in the calculation of basic and diluted earnings per share were the net loss of $15,877,000 (2003: $2,494,000).

Weighted average number of shares used as the denominator

The number of shares used in the calculation of basic and diluted earnings per share is 281,115,660 (2003: 252,176,131). Share options have not been included in the calculation of diluted earnings per share as they are anti-dilutive.

24 Additional financial instruments disclosure

(a) Interest rate risk exposures

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and liabilities is set out below:

				Fixed interest maturing in:			
	Note	Weighted average interest rate %	Floating rate $'000	1 year or less $'000	1-5 years $'000	Non-interest bearing $'000	Total $'000
2004							
Financial assets							
Cash assets	-	4.5	546	-	-	-	546
Receivables	6	-	-	-	-	18	18
Total			546	-	-	18	564
Financial liabilities							
Payables	11	-	-	-	-	3,570	3,570
Lease liabilities	12	8.6	-	5	18	-	23
Employee benefits	13	6.0	28	-	-	-	28
Total			28	5	18	3,570	3,621

24 Additional financial instruments disclosure (continued)

	Note	Weighted average interest rate %	Floating rate $000	Fixed interest maturing in: 1 year or less $000	1-5 years $000	Non-interest bearing $000	Total $000
2003							
Financial assets							
Cash assets	-	5.8	319	-	-	-	319
Receivables	6	-	-	-	-	70	70
Total			319	-	-	70	389
Financial liabilities							
Payables	11	-	-	-	-	3,161	3,161
Lease liabilities	12	8.6	-	104	23	-	127
Employee benefits	13	5.0	25	-	-	-	25
Total			25	104	23	3,161	3,313

(b) Credit risk exposures

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

Recognised financial instruments

The credit risk on financial assets, is the carrying amount, net of any provision for doubtful debts.

24 Additional financial instruments disclosure (continued)

(c) Net fair values of financial assets and liabilities

Valuation approach

Net fair values of financial assets and liabilities are determined by the consolidated entity on the following bases:

Recognised financial instruments

Monetary financial assets and financial liabilities not readily traded in an organised financial market are determined by valuing them at the present value of contractual future cash flows on amounts due from customers (reduced for expected credit losses) or due to suppliers. Cash flows are discounted using standard valuation techniques at the applicable market yield having regard to the timing of the cash flows. The carrying amounts of cash, receivables, payables, lease liabilities and employee benefits approximate net fair value.

	Consolidated			
	2004		2003	
	Carrying amount $'000	Net fair value $'000	Carrying amount $'000	Net fair value $'000
Financial assets				
Cash assets	546	546	319	319
Receivables	18	18	70	70
Financial liabilities				
Payables	3,570	3,570	3,161	3,161
Lease liabilities	23	23	127	127
Employee entitlements	28	28	25	25

Cash assets are readily traded on organised markets in a standardised form. All other financial assets and liabilities are not readily traded on organised markets in a standardised form.

	Consolidated		The Company	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
25 Commitments				
Finance lease payment commitments				
Finance lease commitments are payable:				
Within one year	28	112	-	104
One year or later and no later than five years	-	28	-	-
	28	140	-	104
Less: Future lease finance charges	(5)	(13)	-	(4)
	23	127	-	100
Lease liabilities provided for in the financial statements:				
Current	5	104	-	100
Non-current	18	23	-	-
Total lease liability	23	127	-	100

The consolidated entity leases plant and equipment under finance leases expiring from one to three years. The lease liabilities have been secured against short-term bank deposits held by the consolidated entity.

26 Controlled entities

Particulars in relation to controlled entities

	2004 %	2003 %
Parent entity		
CMC Power Systems Limited		
Controlled entities		
Collins Motor Corporation (UK) Ltd (incorporated in UK)	100	100
CMC Research Pty Ltd	100	100
CMC Management Pty Ltd	100	100
Omessa Holdings Pty Ltd	100	100
Lewberg Pty Ltd	100	100
Aria Power Products Inc.	90	50

27 Events subsequent to balance date

Voluntary administration

On 8 July 2004 Martin Green and Peter Krejci were appointed voluntary administrators of the Company by resolution of directors pursuant to section 436A of the Corporations Act.

At a meeting of creditors on 4 August 2004, it was agreed that the Company execute a Deed of Arrangement. The Deed of Arrangement was executed on 24 August 2004 and a notice under section 450B of the Corporations Act was sent to creditors. The effect of the Deed of Arrangement was to pass back to the Directors control of the day-to-day running of the Company.

The Deed of Arrangement allowed for HSB to loan the Company $120,000 within 14 days and a further $500,000 within 6 months. These amounts were to be treated as a loan to the Company which could be converted into ordinary shares on approval of shareholders at $0.005 per ordinary share. If shareholders should not approve this, HSB will have rights to purchase the intellectual property rights of the Company.

On 14 September 2004 all creditors of the Company were advised to complete a formal proof of debt claim and return this to the administrators prior to 29 October 2004.

27 Events subsequent to balance date (continued)

International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the Company must comply with International Financial Reporting Standards (IFRS) as issued by the Australian Standards Board.

This financial report has been prepared in accordance with Australian accounting and other financial reporting requirements (Australian GAAP). The differences between Australian

International Financial Reporting Standards (continued)

GAAP and IFRS identified to date as potentially having a significant effect on the Company's financial performance and financial position are summarised below. The summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

The Company has not quantified the effects of the differences discussed below. Accordingly, there can be no assurances that the financial performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with IFRS.

Regulatory bodies that promulgate Australian GAAP and IFRS have significant ongoing projects that could affect the differences between Australian GAAP and IFRS described below and the impact of these differences relative to the company's financial reports in the future. The potential impacts on the Company's financial performance and financial position of the adoption of IFRS, including system upgrades and other implementation costs which may be incurred, have not been quantified as at the transition date of 1 July 2004 due to the Company going into voluntary administration. The impact on future years will depend on the particular circumstances prevailing in those years.

The key potential implications of the conversion to IFRS on the Company are as follows:

- income tax will be calculated based on the "balance sheet" approach, which will result in more deferred tax assets and liabilities and, as tax effects follow the underlying transaction, some tax effects will be recognised in equity
- intangible assets:
  - internally generated intangible assets (except development phase expenditure in certain circumstances) will not be recognised
  - intangible assets can only be revalued if there is an active market
- impairments of assets will be determined on a discounted basis, with strict tests for determining whether goodwill and cash-generating operations have been impaired.
- equity-based compensation in the form of shares and options will be recognised as expenses in the periods during which the employee provides related services
- changes in accounting policies will be recognised by restating comparatives rather than making current year adjustments with note disclosure of prior year effects

CMC Power Systems Limited
and its controlled entities
(Subject to Deed of Company Arrangement)

Directors' Declaration

In the opinion of the directors of CMC Power Systems Limited ("the Company"):

(a) the financial statements and notes, set out on pages 15 to 46, are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2004 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

  (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Sydney this 29th April 2005

Signed in accordance with a resolution of the directors:

Tony S P Teng
Director

Independent audit report to the members of CMC Power Systems Limited (Subject to Deed of Company Arrangement)

Scope

We have audited the financial report of CMC Power Systems Limited ("the Company") for the financial year ended 30 June 2004, consisting of the statements of financial performance, statements of financial position, statements of cash flows, accompanying notes, and the directors' declaration set out on pages 15 to 47. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the end of the year or from time to time during the financial year. The Company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures include examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Qualification

Note 1(a) to the financial statements discusses a number of issues that may affect the ability of the Company and consolidated entity to continue as going concerns. In Note 1(a), the directors state their opinion that the going concern basis used in the preparation of the financial report is appropriate on the basis that the Company and its controlled entities have entered into voluntary administration and the administrator has reached a settlement with creditors. The control of the consolidated entity has reverted back to the Company's directors who are presently reviewing the Company's strategic direction including the current position of its technology and new business opportunities. The directors are negotiating with potential investors concerning the funding of the consolidated entity's existing technology and/or introducing new business opportunities which they envisage will result in additional funding being made available to ensure the Company and consolidated entity can continue as going concerns.

The ability of the Company and consolidated entity to continue as going concerns is dependent upon availability of adequate funding and the success of business opportunities that the director decide to pursue in the future. We have been unable to obtain sufficient appropriate evidence in respect of the likelihood of additional funding being received or of the consolidated entity's future plans. Based on our opinion, if the Company and consolidated entity are unable to obtain additional funding in the near future, they would not be able to continue as going concerns.

Had the going concern basis not been used, adjustment would need to be made relating to the recoverability and classification of recorded assets amounts, and/or to the amounts and classifications of liabilities, to reflect the fact that the consolidated entity may be required to realise its assets and extinguish its liabilities other than in the normal course of the business, and at amounts different from those stated in the financial report.

CMC Power Systems Limited
ABN 50 008 924 570
(Subject to Deed of Company Arrangement)

Qualified audit opinion

In our opinion, because of the existence of the limitation on the scope of our work, as described in the qualification paragraphs, and the effects of such adjustments, if any, as might have been determined to be necessary had the limitation not existed, we are unable to and do not express and opinion as to whether the financial report of CMC Power Systems Limited is in accordance with:

(a) the Corporations Act 2001, including:

  (i) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2004 and of their performance for the year ended on that date; and

  (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

KPMG

Tony Nimac
Partner

Sydney
29 April 2005

CMC Power Systems Limited
ABN 50 008 924 570
(Subject to Deed of Company Arrangement)

ASX Additional information

Additional information required by Australian Stock Exchange Listing Rules and not disclosed elsewhere in this report is set out below.

Shareholdings (as at 29 April 2005)

There were no substantial shareholders as at 30 June 2004.

Class of shares and voting rights

At 30 June 2004 there were 3,609 holders of ordinary shares of the Company. The voting rights attaching to the ordinary shares, set out in Article 62 of the Company's Articles of Association, are:

"Subject to these Articles and to any special conditions attaching to any class of shares a member shall be entitled either personally or by proxy or by attorney or by representative to be present at any general meeting of the Company and to vote on any question on a show of hands and upon a poll and to be reckoned in a quorum".

Distribution of shareholders (as at 29 April 2005)

Category Number of shares	Number of ordinary shareholders
1 – 1,000	323
1,001 – 5,000	652
5,001 – 10,000	508
10,001 – 100,000	1,652
100,001 – and over	474
Total shareholders	3,609

The number of shareholders holding less than a marketable parcel at 29 November 2005 was 2,235.

On-market buy-back

There is no current on-market buy-back.

ASX Additional information (continued)

Twenty largest shareholders (as at 29 April 2005)

Name	Number of ordinary shares held	Percentage of capital held
National Nominees Limited	10,104,500	3.34
Fortitude Asset Management Sdn Bhd	10,091,006	3.34
Mr Ian Brooker Drummond	10,000.000	3.31
Ms Choo Kheng Yeoh	10,000,000	3.31
Ms Sock Meng Lek	8,191,912	2.71
Mr Teng Beng Teo	5,787,673	1.91
Sanja Investment Pty Ltd	4,000,000	1.32
Mrs Mei Ling Hilda Fong	3,817,360	1.26
IM3 Corporation Pty Ltd	3,724,970	1.23
Ms Amanda Marie Teo	3,527,273	1.17
Mr Wen Qian Jin & Mrs Yi Wen Chen	3,300,000	1.09
University of Melbourne	3,000,000	0.99
Mr Yue Cao Zhong	2,891,782	0.96
Mrs Dorothy Francess Bloom	2,792,471	0.92
Intelligence Technology Limited	2,600,000	0.86
Ferrell Asset management Ltd	2,353,333	0.78
Dr Siah-Joo Lek	2,000,000	0.66
Mr Geok-Koon Teh	2,000,000	0.66
Mr Tony Sin Pyng Teng	1,791,606	0.59
Mr Tom Gosling	1,674,999	0.55

CMC Power Systems Limited
ABN 50 008 924 570
(Subject to Deed of Company Arrangement)

Corporate directory

Company Secretary

Mr Tony S P Teng

Principal Registered Office

Level 2, 491 Elizabeth Street
Surry Hills NSW 2001
Telephone: 02 9699 9000
Facsimile: 02 9699 9088
Email: cmc@cmcpower.com

Share Registry

Computershare Registry Services Pty Ltd
Reserve Bank Building
Level 2, 45 St Georges Terrace
Perth WA 6000

Home Exchange

Australian Stock Exchange Limited
Exchange Centre
20 Bridge Street
Sydney NSW 2000

Auditors

KPMG
10 Shelley Street
Sydney NSW 2000

Solicitors

Hagan & Co
Level 2, 2 Bligh Street
Sydney NSW 2000

Bankers

Australian & New Zealand Banking Group Limited
Level 6, 20 Martin Place
Sydney NSW 2000

Other information

CMC Power Systems Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.