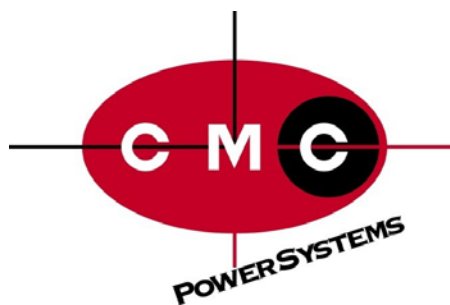


CMC Power Systems Limited
ABN 50 008 924 570



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23 February 2006

e-Lodgement

FOR PUBLIC RELEASE

**Manager - Company Announcements
Australian Stock Exchange Limited
20 Bridge Street
SYDNEY NSW 2000**

Dear Sir/Madam

CMC POWER SYSTEMS LIMITED AND ITS CONTROLLED ENTITIES

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2005**

**For and on behalf of
CMC POWER SYSTEMS LIMITED**

**Tony SP Teng
Secretary**

CMC POWER SYSTEMS LIMITED
ABN 50 008 924 570

AND ITS CONTROLLED ENTITIES

ANNUAL FINANCIAL REPORT

30 JUNE 2005

Directors' Review

Overview

The past 12 months since the appointment of Martin Green and Peter Krejci as voluntary administrators on 8th July 2004 has been difficult and the Company have not been successful in securing any funding to continue the commercialisation of the Sytec Engine Technology. Conditions for fund raising has been very difficult in the current climate. Our Licensee, Sytec Technologies Sdn Bhd, is still actively pursuing initiatives with the Malaysian Government agencies to participate in the commercialisation of the technology.

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.

A Deed of Company Arrangement was executed on 24 August 2004 and the effect of the Deed was to pass back to the directors control of the day-to-day running of the Company. The Deed of Arrangement allowed for Ilham Interaktif Sdn Bhd ("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.

The effect of the Deed of Company Arrangement was to either:

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; or

Alternative 2

In the event that IISB does not make the election referred to in Alternative 1 above, or following the making of such election the IISB debt is not converted to shares for any reason, IISB may at its election purchase from the Company in exchange for releasing the Company of the debt of \$620,000 owed by the Company to IISB pursuant to the payments made of \$120,000 to the Company and \$500,000 to the Deed Fund, all of the assets of certain controlled entities (excluding cash at bank and the Deed Fund) and including all of the intellectual property including patents owned by the Company.

Events subsequent to balance date

Subsequent to the year end, the Company was fortunate in early September 2005, to be able to enter into a proposal with Goldchoice Investments Limited to recapitalise the Company coinciding with the election given by Ilham Interaktif Sdn Bhd (“IISB”) under the Deed of Company Arrangement (“DOCA”) to acquire all of the Company’s intellectual property assets.

Under these proposals the following material events occurred:

- 1 IISB elected Alternative 2 under the DOCA to purchase from the Company all of the assets of certain controlled entities (being Intellectual Property and promissory notes) excluding cash and the Deed Fund in exchange for releasing the Company from a debt of \$620,000 owed by the Company to IISB.
- 2 The Company, IISB and Goldchoice Investments Limited, (a Hong Kong based company), entered into a Heads of Agreement dated 6 September 2005 whereby Goldchoice agreed to make available funding to the Company conditional on the events in paragraph 1 occurring and on the following terms.
 - (a) Placement
Goldchoice agrees to subscribe the amount of \$135,000 for a placement of 45 million ordinary shares of CMC, and CMC agrees to issue and allot to Goldchoice, 45 million Shares at an issue price of 0.3 cent per Share to raise \$135,000 under the placement.
 - (b) Loan
Goldchoice agrees to provide to CMC loan funds amounting to \$165,000 which, subject to the approval of CMC shareholders at the 2004 Annual General Meeting, is to be replaced with ordinary shares of CMC issued at 0.3 cent per Share.
 - (c) Options
CMC agrees to issue 233.33 million Options to Goldchoice as part of the agreed funding subject to shareholder approvals.
- 3 Following the election by IISB referred to in paragraph 1, Dato Chuah Beng Hock and Mr Aundre Kok Onn resigned effective on 5 September 2005, and Dato Dr Haji Sallahuddin Kassim and Mr Augustine Chan resigned effective on 9 September 2005.
Mr David Fang and Ms Mary Yang were appointed as directors of the Company on 9 September 2005.
- 4 On 9 September 2005, settlement under the Heads of Agreement occurred and Goldchoice injected \$300,000 working capital into the Company representing equity and loan funds referred to in paragraphs 2(a) and 2(b). The Company’s intellectual property was transferred to IISB through the transfer of patents and the transfer of the shares of CMC Technologies Pty Limited to IISB effective on 9 September 2005. Loans that had been made by IISB to the Company amounting to \$620,000 were cancelled on this date.

The agreed terms for the transfer of intellectual property assets to IISB include the following principal conditions as set out in the Deed of Company Arrangement.

- (a) IISB will use all reasonable endeavours to exploit the Intellectual Property through commercial manufacture;
- (b) IISB is to pay a royalty of \$2 to the Company per motor produced by IISB or by any licensee or other party with the approval of IISB; and
- (c) IISB will transfer to the Company subject to its consent, at no cost, the Intellectual Property in the event that IISB or its licensees or any person on its behalf has not exploited the Intellectual Property by the production of a minimum of 1,000 motors within a period of 5 years from the transfer of the Intellectual Property to IISB.

Under the restructured arrangements, the Company has the opportunity to derive royalty income from engines produced from the Malaysian party if it is able to exploit the technology.

As you would be aware the Company was very late in holding the 2004 Annual General Meeting which was held on 28 November 2005 owing to delays associated with operating under a Deed of Company Arrangement and also because of the Company's lack of funds to hold the Meeting. The financial statements for the year ended 30 June 2004 were lodged with ASX and ASIC on 18 May 2005.

The directors regret this situation, however, we are pleased to report that the Company has survived and is looking towards a new future. At the Annual General Meeting all resolutions were carried unanimously by a show of hands.

The directors also believe that the Company now has the opportunity, with the support of Goldchoice, to seek a new business with a view to restoring and enhancing shareholder value.

As a result of the events, above, the Company has been able to avoid liquidation and retain a royalty interest in the engine technology. The Company, itself, was unable to fund the commercialisation of the technology.

We are pleased to report that the Company has received advice from the Joint Administrators that the Deed of Company Arrangement has been wholly effectuated on the 28 November 2005 and the Company is formally out of administration.

The objective of your Directors is to restore shareholder value and seek re-quotation of the Company's shares at an appropriate time.

Tony Teng
Executive Director/Company Secretary

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 2005 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
<i>Current Directors</i>		
Mr Tony Sin Pyng Teng B.Econ., Grad.Dip.Fin. Mangt, CPA, FAICD, AFAIM Executive Director and Company Secretary	52	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.
Ms Min (Mary)Yang Director	38	Appointed a director on 9 September 2005. Mary Yang is an Australian citizen, currently residing in Sydney. She has extensive business connetions in the Asia Pacific region including greater China. Mary Yang has been involved in businesses and transactions across a number of sectors including resources, telecommunications, property, travel, media and on-line education.
Mr Fang Quan Director	36	Appointed a director on 9 September 2005. David Fang was born in Shanghai and is an Australian citizen currently residing in Sydney. He has extensive business experience, mainly in property development and sales, hotel businesses and investments.

Directors' Report (continued)

Directors (continued)

Name and qualifications	Age	Experience and special responsibilities
<i>Former directors</i>		
Dato' Dr.Haji Sallehuddin Kassim Independent non Executive Director	54	Director from 16 January 2004 to 9 September 2005.
Dato' Chuah Beng Hock Independent non Executive Director	52	Director from 19 October 2004 to 5 September 2005.
Mr Aundre Kok Onn Independent non Executive Director	50	Director from 19 October 2004 to 5 September 2005.
Mr Augustine Chan Independent non Executive Director	58	Director from 24 August 2004 to 9 September 2005.
Mr Frank Chuo Siong Choo Independent non Executive Director	40	Director from 16 August 2002 to 24 August 2004.
Mr Thomas William Gosling Independent non Executive Director	58	Director from 13 May 2004 to 24 August 2004.
Mr Zaki Bin Hj Ahmad Shariff B.Econ.(Hons), M.S. Accounting Alternate Director	47	Alternate director for Mr Tony S P Teng from 27 November 1997 to 24 August 2004.

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	4	4
Tony S P Teng	4	4
Dato' Chuah Beng Hock	-	2
Aundre Kok Onn	-	2
Augustine Chan	3	3
Frank C S Choo	1	1
Thomas W Gosling	1	1
Zaki Bin Hj Ahmad Shariff	1	1

Directors' Report (continued)

Company secretary

Mr TSP Teng was appointed to the position of Company Secretary on 3 October 1997. Mr Teng is a Certified Practising Accountant, a Fellow of the Australian Institute of Company Directors and an Associated Fellow of the Australian Institute of Management.

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; and
- 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.

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 January 2005;
- assesses whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. Each reporting period the external auditor provides an independence declaration in relation to the audit or review;
- reviews the nomination and performance of the external auditor. The external auditors engagement partner was last rotated in 2002;
- 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.

Directors' Report (continued)

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 ending 31 December 2005. Details of the progress of the implementation plan and potential impact of adopting AIFRS are detailed in Note 27 to the financial statements.

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 securities policy by directors and employees 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:
 - 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.

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.

Directors' Report (continued)

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 2005 was \$492,000 (2004: \$15,877,000). The reduction in the loss compared to the prior year is primarily due to a reduction in research and development activity and other cost reductions in light of the consolidated entity's cash position.

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:

- 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.
- A Deed of Company Arrangement was executed on 24 August 2004 and the effect of the Deed was to pass back to the directors control of the day-to-day running of the Company. The Deed of Arrangement allowed for Ilham Interaktif Sdn Bhd ("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.

The effect of the Deed of Company Arrangement was to either:

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; or

Alternative 2

In the event that IISB does not make the election referred to in Alternative 1 above, or following the making of such election the IISB debt is not converted to shares for any reason, IISB may at its election purchase from the Company in exchange for releasing the Company of the debt of \$620,000 owed by the Company to IISB pursuant to the payments made of \$120,000 to the Company and \$500,000 to the Deed Fund, all of the assets of certain controlled entities (excluding cash at bank and the Deed Fund) and including all of the intellectual property including patents owned by the Company.

Directors' Report (continued)

Events subsequent to balance date

Subsequent to the year end, the Company in early September 2005, was able to enter into a proposal with Goldchoice Investments Limited to recapitalise the Company coinciding with the election given by IISB Interaktif Sdn Bhd ("IISB") under the Deed of Company Arrangement ("DOCA") to acquire all of the Company's intellectual property assets.

Under these proposals the following material events occurred:

- 1 IISB elected Alternative 2 under the DOCA to purchase from the Company all of the assets of certain controlled entities (being Intellectual Property and promissory notes) excluding cash and the Deed Fund in exchange for releasing the Company from a debt of \$620,000 owed by the Company to IISB.
- 2 The Company, IISB and Goldchoice Investments Limited, (a Hong Kong based company), entered into a Heads of Agreement dated 6 September 2005 whereby Goldchoice agreed to make available funding to the Company conditional on the events in paragraph 1 occurring and on the following terms.
 - (a) Placement
Goldchoice agrees to subscribe the amount of \$135,000 for a placement of 45 million ordinary shares of CMC, and CMC agrees to issue and allot to Goldchoice, 45 million Shares at an issue price of 0.3 cent per Share to raise \$135,000 under the placement.
 - (b) Loan
Goldchoice agrees to provide to CMC loan funds amounting to \$165,000 which, subject to the approval of CMC shareholders at the 2004 Annual General Meeting, is to be replaced with ordinary shares of CMC issued at 0.3 cent per Share.
 - (c) Options
CMC agrees to issue 233.33 million Options to Goldchoice as part of the agreed funding subject to shareholder approvals.
- 3 Following the election by IISB referred to in paragraph 1, Dato Chuah Beng Hock and Mr Aundre Kok Onn resigned effective on 5 September 2005, and Dato Dr Haji Sallahuddin Kassim and Mr Augustine Chan resigned effective on 9 September 2005. Mr David Fang and Ms Mary Yang were appointed as directors of the Company on 9 September 2005.
- 4 On 9 September 2005, settlement under the Heads of Agreement occurred and Goldchoice injected \$300,000 working capital into the Company representing equity and loan funds referred to in paragraphs 2(a) and 2(b). The Company's intellectual property was transferred to IISB through the transfer of patents and the transfer of the shares of CMC Technologies Pty Limited to IISB effective on 9 September 2005. Loans that had been made by IISB to the Company amounting to \$620,000 were cancelled on this date.

Directors' Report (continued)

Events subsequent to balance date (continued)

The agreed terms for the transfer of intellectual property assets to IISB include the following principal conditions as set out in the Deed of Company Arrangement.

- (a) IISB will use all reasonable endeavours to exploit the Intellectual Property through commercial manufacture;
- (b) IISB is to pay a royalty of \$2 to the Company per motor produced by IISB or by any licensee or other party with the approval of IISB; and
- (c) IISB will transfer to the Company subject to its consent, at no cost, the Intellectual Property in the event that IISB or its licensees or any person on its behalf has not exploited the Intellectual Property by the production of a minimum of 1,000 motors within a period of 5 years from the transfer of the Intellectual Property to IISB.

Under the restructured arrangements, the Company has the opportunity to derive royalty income from engines produced from the Malaysian party if it is able to exploit the technology.

The directors also believe that the Company now has the opportunity, with the support of Goldchoice, to seek a new business with a view to restoring and enhancing shareholder value.

As a result of the events, above, the Company has been able to avoid liquidation and retain a royalty interest in the engine technology. The Company, itself, was unable to fund the commercialisation of the technology.

The Company has received advice from the Joint Administrators that the Deed of Company Arrangement has been wholly effectuated on the 28 November 2005 and the Company is formally out of administration.

For reporting periods starting on or after 1 January 2005, the company must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board. The implementation plan and potential impact of adopting AIFRS are detailed in Note 27 to the financial statements.

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)

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 incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies.

Remuneration policies

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

Given the financial position of the consolidated entity, non-executive directors do not presently receive remuneration. Executive directors receive fees for providing consulting services to the consolidated entity.

Executive directors may receive 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.

Neither non-executive nor executive directors were issued options on securities during the year. Directors' fees cover all main board activities.

No termination benefits are available.

The following table provides the details of all directors of the Company and the executives of the consolidated entity who receive the highest remuneration.

		Base remuneration (consulting fee) \$	Bonuses \$	Non-cash benefits \$	Super contributions \$	Options issued \$	Total \$
Directors							
<i>Non-executive*</i>							
Dato' C B Hock		-	-	-	-	-	-
Dato' S Kasim		-	-	-	-	-	-
A Chan		-	-	-	-	-	-
A K Onn		-	-	-	-	-	-
C S Choo		-	-	-	-	-	-
T W Gosling		-	-	-	-	-	-
A B H A Shariff		-	-	-	-	-	-
<i>Executive</i>							
T Teng	2005	103,000	-	-	-	-	103,000
	2004	120,000	-	-	-	-	120,000
G Fountain	2005	-	-	-	-	-	-
	2004	95,500	-	-	-	-	95,500

* Non-executive directors were not remunerated in 2005 or 2004.

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	-

Non-audit services

During the year KPMG, the Company's auditor, has provided taxation services in addition to their statutory duties. The board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the board to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 *Professional Independence*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

The lead auditor's declaration is set out on page 17 and forms part of the directors' report for the year ended 30 June 2005.

Details of amounts paid to the auditor of the Company, KPMG, for audit and non-audit services provided during the year are set out below.

	Consolidated	
	2005 \$	2004 \$
Statutory audit services:		
Auditors of the Company – KPMG		
Audit and review of the financial reports	33,000	32,500
Other services:		
Auditors of the Company – KPMG		
Taxation compliance services	40,800	85,700
	<u>73,800</u>	<u>118,200</u>

Directors' Report (continued)

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 on 31 January 2006.

Signed in accordance with a resolution of the directors:

Tony S P Teng
Director

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: The directors of CMC Power Systems Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2005 there have been:

- (a) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Tony Nimac
Partner

Sydney
31 January 2006

**CMC Power Systems Limited
and its controlled entities**

**Statements of Financial Performance
For the year ended 30 June 2005**

	Note	Consolidated		The Company	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Total revenue from ordinary activities	2	302	674	14	674
Expenses from ordinary activities:					
Research and development expenses		(294)	(814)	(294)	(814)
Marketing expenses		(31)	(198)	(31)	(132)
Administrative expenses		(466)	(1,530)	(311)	(1,323)
Bad and doubtful debts		-	-	-	(4,934)
Borrowing costs		(3)	(5)	-	(4)
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	(492)	(15,877)	(622)	(14,364)
Income tax benefit relating to ordinary activities	5	-	-	-	-
Net loss	15	(492)	(15,877)	(622)	(14,364)
Basic and diluted loss per ordinary share	22	(\$0.00)	(\$0.06)		

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 21 to 51.

**CMC Power Systems Limited
and its controlled entities**

**Statements of Financial Position
As at 30 June 2005**

	Note	Consolidated		The Company	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Current assets					
Cash assets		446	546	446	546
Receivables	6	4	18	4	18
Total current assets		450	564	450	564
Non-current assets					
Receivables	6	-	-	13,875	13,875
Other financial assets	7	-	-	-	-
Plant and equipment	8	14	22	-	-
Intangible assets	9	-	-	-	-
Other	10	-	-	-	-
Total non-current assets		14	22	13,875	13,875
Total assets		464	586	14,325	14,439
Current liabilities					
Payables	11	3,963	3,570	2,158	1,632
Interest bearing liabilities	12	18	5	-	-
Provisions	13	10	28	10	28
Total current liabilities		3,991	3,603	2,168	1,660
Non current liabilities					
Payables	11	-	-	14,875	14,875
Interest bearing liabilities	12	-	18	-	-
Total non-current liabilities		-	18	14,875	14,875
Total liabilities		3,991	3,621	17,043	16,535
Net liabilities		(3,527)	(3,035)	(2,718)	(2,096)
Deficiency					
Contributed equity	14	32,716	32,716	32,716	32,716
Accumulated losses	15	(36,243)	(35,751)	(35,434)	(34,812)
Total deficiency		(3,527)	(3,035)	(2,718)	(2,096)

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 21 to 51.

**CMC Power Systems Limited
and its controlled entities**

**Statements of Cash Flows
For the year ended 30 June 2005**

	Note	Consolidated		The Company	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Cash flows from operating activities					
Cash payments in the course of operations		(726)	(1,933)	(734)	(1,937)
Interest received		8	23	8	23
Research and development tax refund		-	651	-	651
Net cash used in operating activities	21(b)	(718)	(1,259)	(726)	(1,263)
Cash flows from investing activities					
Payments for plant and equipment		-	(4)	-	(4)
Proceeds from sale of non-current assets		6	-	6	-
Net cash provided by/(used in) investing activities		6	(4)	6	(4)
Cash flows from financing activities					
Net proceeds from share issues		-	628	-	628
Proceeds from borrowing		620	-	620	-
Net proceeds from issue of converting notes		-	966	-	966
Finance lease payments		(8)	(104)	-	(100)
Net cash (used in)/provided by financing activities		612	1,490	620	1,494
Net (decrease)/increase in cash held		(100)	227	(100)	227
Cash at the beginning of the financial year		546	319	546	319
Cash at the end of the financial year	21(a)	446	546	446	546

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 21 to 51.

Notes to the financial statements

For the year ended 30 June 2005

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 2005, the consolidated entity recorded a loss of \$492,000 (2004:\$15,877,000). In addition, the consolidated entity's liabilities exceeded its total assets by \$3,527,000 as at 30 June 2005 (2004:\$3,035,000).

The Directors nevertheless believe that it is appropriate to prepare the financial report on a going concern basis as the Company has reached settlement with creditors through the appointment of voluntary administrators. On 8 July 2004 Martin Green and Peter Krejci were appointed voluntary administrators of the Company by resolution of the directors pursuant to section 436A of the Corporations Act 2001.

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 2001 was sent to creditors:

- which 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; and
- setting out the terms of a proposed settlement with creditors.

Subsequent to 30 June 2005:

- the Company received advice from the Joint Administrators that the Deed of Company Arrangement has been wholly effectuated on 28 November 2005 and the Company is formally out of administration with creditors receiving 8.36 cents in the dollar. This has significantly reduced the consolidated entity's deficiency of \$3,527,000 as recorded in the statement of financial position as at 30 June 2005; and
- the Company entered into a proposal with Goldchoice Investments Limited to recapitalise the Company coinciding with an election given by IISB under the Deed of Arrangement to acquire all of the all of the assets of certain controlled entities (being Intellectual Property and promissory notes) in exchange for releasing the Company from a debt of \$620,000.

Notes to the financial statements

For the year ended 30 June 2005

1 Statement of significant accounting policies

a) Basis of preparation and going concern (continued)

The Company, IISB and Goldchoice Investments Limited, (a Hong Kong based company), entered into a Heads of Agreement dated 6 September 2005 whereby Goldchoice injected \$300,000 working capital into the Company. In addition, CMC issued 233.33 million Options to Goldchoice with the potential to raise an additional \$700,000. This is however dependant upon Goldchoice exercising these Options.

The directors and Goldchoice are presently reviewing the Company's strategic direction including 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.

Notes to the financial statements

For the year ended 30 June 2005

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.

Research and development grants

Where a grant is received relating to research and development costs that have been expensed, the grant is recognised as revenue. Where a grant is received relating to research and development costs that have been deferred, the grant is deducted from the carrying amount of the deferred research and development costs.

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.

Notes to the financial statements

For the year ended 30 June 2005

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.

Notes to the financial statements

For the year ended 30 June 2005

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.

Notes to the financial statements For the year ended 30 June 2005

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.

Notes to the financial statements

For the year ended 30 June 2005

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:

	2005	2004
<i>Plant and equipment</i>		
Straight line	20.0%	20.0%
Diminishing value	15%-37.5%	15%-37.5%
<i>Leased plant and equipment</i>		
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.

Notes to the financial statements
For the year ended 30 June 2005

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 17.

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/(loss) per share

Basic earnings/(loss) per share (“EPS”) is calculated by dividing the net profit/(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.

	Consolidated		The Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
2 Revenue from ordinary activities				
Other revenues:				
<i>From operating activities</i>				
Interest				
Other parties	8	23	8	23
Foreign exchange gain	288	-	-	-
Research and development cash offset grant	-	651	-	651
Gross proceeds on disposal of non-current assets	6	-	6	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total other revenues	302	674	14	674
Total revenue from ordinary activities	<hr/> 302	<hr/> 674	<hr/> 14	<hr/> 674

Notes to the financial statements
For the year ended 30 June 2005

	Consolidated		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'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 (gain)/loss	(288)	550	147	4
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	2	110	-	109
Amortisation of:				
Leased plant and equipment	6	35	-	29
Total depreciation and amortisation	8	145	-	138
Borrowing costs:				
Other parties				
- Finance charges on capitalised leases	3	5	-	4
Net expense from movements in provision for:				
Employee benefits	(18)	3	(18)	3
Research and development expenditure:				
Expensed as incurred	294	814	294	814
(Gain)/loss on disposal of non-current assets	(6)	5	(6)	4

Notes to the financial statements
For the year ended 30 June 2005

	Consolidated		The Company	
	2005	2004	2005	2004
	\$	\$	\$	\$
4 Auditor's remuneration				
<i>Audit services:</i>				
Auditors of the Company – KPMG Audit and review of the financial reports	33,000	32,500	33,000	32,500
<i>Other services:</i>				
Auditors of the Company – KPMG Taxation compliance services	40,800	85,700	40,800	85,700
	<u>73,800</u>	<u>118,200</u>	<u>73,800</u>	<u>118,200</u>

	Consolidated		The Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
5 Taxation				
(a) Income tax benefit				
Prima facie income tax benefit calculated at 30% (2004: 30%) on the loss from ordinary activities	(148)	(4,763)	(187)	(4,309)
Decrease in income tax benefit due to:				
Non-deductible expenses	-	3,639	-	3,138
Future income tax benefit not brought to account	148	1,124	187	1,171
Income tax benefit attributable to operating loss from ordinary activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Notes to the financial statements
For the year ended 30 June 2005

5 Taxation (continued)

(b) Future income tax benefit not taken to account

The potential future income tax benefit 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	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Tax losses carried forward	6,556	6,403	6,010	5,818
Timing differences	3	8	3	8
	<u>6,559</u>	<u>6,411</u>	<u>6,013</u>	<u>5,826</u>

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.

	The Company	
	2005	2004
	\$'000	\$'000
(c) Dividend franking account		
30% franking credits available to shareholders of CMC Power Systems Limited for subsequent financial years	101	101
	<u>101</u>	<u>101</u>

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.

Notes to the financial statements
For the year ended 30 June 2005

	Consolidated		The Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
6 Receivables				
Current				
Sundry debtors	4	18	4	18
Amount owing by controlled entity	-	-	-	291
Less: Provision for doubtful debtors	-	-	-	(291)
	<u>4</u>	<u>18</u>	<u>4</u>	<u>18</u>
Non-current				
Amount owing by controlled entity	-	-	-	6,486
Less: Provision for doubtful debts	-	-	-	(6,486)
Promissory note receivable from controlled entity	-	-	13,875	13,875
	<u>-</u>	<u>-</u>	<u>13,875</u>	<u>13,875</u>

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	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'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)	(13,875)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Notes to the financial statements
For the year ended 30 June 2005

	Consolidated		The Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
8 Plant and equipment				
Plant and equipment				
<i>At cost</i>	839	839	826	826
<i>Accumulated depreciation</i>	(837)	(835)	(826)	(826)
	<u>2</u>	<u>4</u>	<u>-</u>	<u>-</u>
Leased plant and equipment				
<i>At capitalised cost</i>	32	32	-	-
<i>Accumulated amortisation</i>	(20)	(14)	-	-
	<u>12</u>	<u>18</u>	<u>-</u>	<u>-</u>
Total plant and equipment – net book value	<u>14</u>	<u>22</u>	<u>-</u>	<u>-</u>
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	4	234	-	228
Additions	-	4	-	4
Transferred from leased plant and equipment	-	90	-	90
Disposal	-	(5)	-	(4)
Depreciation	(2)	(110)	-	(109)
Write down to recoverable amount	-	(209)	-	(209)
	<u>2</u>	<u>4</u>	<u>-</u>	<u>-</u>
Carrying amount at end of year	<u>2</u>	<u>4</u>	<u>-</u>	<u>-</u>
Leased plant and equipment				
Carrying amount at beginning of year	18	143	-	119
Transferred to plant and equipment	-	(90)	-	(90)
Amortisation	(6)	(35)	-	(29)
	<u>12</u>	<u>18</u>	<u>-</u>	<u>-</u>
Carrying amount at end of year	<u>12</u>	<u>18</u>	<u>-</u>	<u>-</u>

Notes to the financial statements
For the year ended 30 June 2005

	Consolidated		The Company	
	2005	2004	2005	2004
	\$'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)	(6,894)	(6,894)
	<hr/>	<hr/>	<hr/>	<hr/>
Carrying amount at end of year	-	-	-	-

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 was written off in the 2004 financial year. As detailed in Note 26 to the financial statements, subsequent to balance date the intangible assets were acquired by a third party for \$Nil in exchange for the third party releasing the consolidated entity from a debt obligation.

	Consolidated		The Company	
	2005	2004	2005	2004
	\$'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)	(6,901)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Carrying amount at end of year	-	-	-	-

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 was written off in the 2004 financial year. As detailed in Note 26 to the financial statements, subsequent to balance date the deferred engine development costs were acquired by a third party for \$Nil in exchange for the third party releasing the consolidated entity from a debt obligation.

Notes to the financial statements
For the year ended 30 June 2005

	Consolidated		The Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
11 Payables				
Current				
Creditors and accruals	3,343	3,570	1,538	1,632
Owing to Ilham Interaktif Sdn Bhd	620	-	620	-
	<u>3,963</u>	<u>3,570</u>	<u>2,158</u>	<u>1,632</u>

An interest free loan of \$620,000 was made to the consolidated entity by way of a Deed of Company Arrangement executed on 24 August 2004. Refer Note 26 to the financial statements for further details in relation to this loan. The consolidated entity was released from its obligation to repay this loan subsequent to balance date.

	Consolidated		The Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Non current				
Promissory note payable to controlled entity	-	-	13,875	13,875
Amount owing to controlled entity	-	-	1,000	1,000
	<u>-</u>	<u>-</u>	<u>14,875</u>	<u>14,875</u>

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

Notes to the financial statements
For the year ended 30 June 2005

	Consolidated		The Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
12 Interest bearing liabilities				
Current				
Lease liabilities - secured	18	5	-	-
Non Current				
Lease liabilities - secured	-	18	-	-

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

	Consolidated		The Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
13 Provisions				
Current				
Employee benefits	10	28	10	28

14 Contributed equity				
Share capital				
302,477,835 (2004: 302,477,835) ordinary shares, fully paid	32,716	32,716	32,716	32,716
Movements in ordinary share capital				
Balance at the beginning of the financial year	32,716	31,122	32,716	31,122
Shares issued for cash (2004: 33,996,055)	-	692	-	692
Converting notes converted during the year into ordinary share capital	-	966	-	966
Share issue costs	-	(64)	-	(64)
Balance at end of the financial year	32,716	32,716	32,716	32,716

**Notes to the financial statements
For the year ended 30 June 2005**

	Consolidated		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
14 Contributed equity (continued)				
Movements in converting notes				
Balance at the beginning of the financial year	-	-	-	-
Equity portion of 966,470 converting notes issued during 2004	-	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 were mandatorily converted on 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.

Notes to the financial statements
For the year ended 30 June 2005

	Consolidated		The Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
15 Accumulated losses				
Accumulated losses at beginning of year	(35,751)	(19,874)	(34,812)	(20,448)
Net loss	(492)	(15,877)	(622)	(14,364)
	<hr/>			
Accumulated losses at end of year	<u>(36,243)</u>	<u>(35,751)</u>	<u>(35,434)</u>	<u>(34,812)</u>

16 Share options

At 30 June 2005, options issued by the Company amount to 20,329,400 (2004: 40,658,800). Options issued during 2004 are set out in Note 14 to the financial statements.

	Consolidated		The Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
17 Employee benefits				
Aggregate liability for employee benefits, including on-costs				
Current	<u>10</u>	<u>28</u>	<u>10</u>	<u>28</u>
Number of employees				
Number of employees at year end	<u>3</u>	<u>5</u>	<u>3</u>	<u>5</u>

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 2005 are as follows:

	Consolidated		The Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Employer contributions to the plans	<u>11</u>	<u>44</u>	<u>11</u>	<u>44</u>
Employer contributions payable to the plans at reporting date	<u>120</u>	<u>100</u>	<u>120</u>	<u>100</u>

Notes to the financial statements

For the year ended 30 June 2005

18 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.

Given the financial position of the consolidated entity, non-executive directors do not presently receive remuneration. Executive directors receive fees for providing consulting services to the consolidated entity.

Executive directors may receive 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.

Neither non-executive nor executive directors were issued options on securities during the year. Directors' fees cover all main board activities.

No termination benefits are available.

The following table provides the details of all directors of the Company and the executives of the consolidated entity who receive the highest remuneration.

		Base remuneration (consulting fee) \$	Bonuses \$	Non-cash benefits \$	Super contributions \$	Options issued \$	Total \$
Directors							
<i>Non-executive*</i>							
Dato' C B Hock		-	-	-	-	-	-
Dato' S Kasim		-	-	-	-	-	-
A Chan		-	-	-	-	-	-
A K Onn		-	-	-	-	-	-
C S Choo		-	-	-	-	-	-
T W Gosling		-	-	-	-	-	-
A B H A Shariff		-	-	-	-	-	-
<i>Executive</i>							
T Teng	2005	103,000	-	-	-	-	103,000
	2004	120,000	-	-	-	-	120,000
G Fountain	2005	-	-	-	-	-	-
	2004	95,500	-	-	-	-	95,500

* Non-executive directors were not remunerated in 2005 or 2004.

Notes to the financial statements

For the year ended 30 June 2005

19 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.

20 Related parties

Directors

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

T S P Teng, Dato' Chuah Beng Hock, A K Onn, A Chan, T Gosling, F C S Choo, Dato' Sallehuddin Kasim and Z Shariff.

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 18.

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	
	2005	2004
CMC Power Systems Limited		
Ordinary shares	1,791,606	3,466,605

Mr Tony S P Teng held all ordinary shares owned by directors of the reporting entity or director related entities at 30 June 2005. The movement in shares owned by directors of the reporting entity or director related entities between 1 July 2004 and 30 June 2005 relate to Mr T Gosling's shareholding when he ceased to be a director of the Company on 24 August 2004.

Notes to the financial statements
For the year ended 30 June 2005

20 Related parties (continued)

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:

Director	Transaction	Consolidated		The Company	
		2005	2004	2005	2004
		\$	\$	\$	\$
<i>Current</i>					
Tony S P Teng	Consulting fees	103,000	120,000	103,000	120,000
<i>Former</i>					
Graham H Fountain	Consulting fees	-	95,500	-	95,500

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 18.

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 25.

Notes to the financial statements
For the year ended 30 June 2005

21 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	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Cash at bank and on hand	446	259	446	259
Cash held for refund (Refer note 22 (c))	-	287	-	287
	<u>446</u>	<u>546</u>	<u>446</u>	<u>546</u>

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

Loss from ordinary activities after income tax	(492)	(15,877)	(622)	(14,364)
Add items classified as investing/financing activities:				
Finance charges on capitalised leased assets	3	5	-	4
Profit on sale of non-current assets	(6)	-	(6)	-
Add/(less) non cash items:				
Amortisation	6	35	-	29
Depreciation	2	110	-	109
Amounts set aside to provisions	(18)	3	(18)	4,937
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	(505)	(1,720)	(646)	(1,454)
Change in assets and liabilities:				
(Increase)/decrease in receivables	14	52	14	(48)
Increase/(decrease) in payables	(227)	409	(94)	239
Net cash used in operating activities	<u>(718)</u>	<u>(1,259)</u>	<u>(726)</u>	<u>(1,263)</u>

Notes to the financial statements

For the year ended 30 June 2005

21 Notes to the statements of cash flows (continued)

(c) Cash not available for use

During 2004 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 was included in cash assets and payables at 30 June 2004 was not available for use by the consolidated entity and was returned to shareholders during this financial year.

(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.

22 Earnings/(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 \$492,000 (2004: \$15,877,000).

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 (2004: 281,115,660). Share options have not been included in the calculation of diluted earnings per share as they are anti-dilutive.

Notes to the financial statements
For the year ended 30 June 2005

23 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:

	Note	Weighted average interest rate %	Fixed interest maturing in:				Total \$'000
			Floating rate \$'000	1 year or less \$'000	1-5 years \$'000	Non- interest bearing \$'000	
2005							
Financial assets							
Cash assets	-	4.5	446	-	-	-	446
Receivables	6	-	-	-	-	4	4
Total			446	-	-	4	450
Financial liabilities							
Payables	11	-	-	-	-	3,963	3,963
Lease liabilities	12	8.6	-	18	-	-	18
Employee benefits	13	6.0	10	-	-	-	10
Total			10	18	-	3,963	3,991

Notes to the financial statements
For the year ended 30 June 2005

23 Additional financial instruments disclosure (continued)

	Note	Weighted average interest rate %	Fixed interest maturing in:			Non- interest bearing \$000	Total \$000
			Floating rate \$000	1 year or less \$000	1-5 years \$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

(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.

Notes to the financial statements
For the year ended 30 June 2005

23 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			
	2005	2005	2004	2004
	Carrying amount \$'000	Net fair value \$'000	Carrying amount \$'000	Net fair value \$'000
Financial assets				
Cash assets	446	446	546	546
Receivables	4	4	18	18
Financial liabilities				
Payables	3,963	3,963	3,570	3,570
Lease liabilities	18	18	23	23
Employee entitlements	10	10	28	28

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.

Notes to the financial statements
For the year ended 30 June 2005

		Consolidated		The Company	
		2005	2004	2005	2004
		\$'000	\$'000	\$'000	\$'000
24	Commitments				
	Finance lease payment commitments				
	Finance lease commitments are payable:				
	Within one year	20	28	-	-
	Less: Future lease finance charges	(2)	(5)	-	-
		<hr/>	<hr/>	<hr/>	<hr/>
		18	23	-	-
		<hr/>	<hr/>	<hr/>	<hr/>
	Lease liabilities provided for in the financial statements:				
	Current	18	5	-	-
	Non-current	-	18	-	-
		<hr/>	<hr/>	<hr/>	<hr/>
	Total lease liability	18	23	-	-
		<hr/>	<hr/>	<hr/>	<hr/>

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.

Notes to the financial statements
For the year ended 30 June 2005

	2005 %	2004 %
25		
Controlled entities		
Particulars in relation to controlled entities		
<i>Parent entity</i>		
CMC Power Systems Limited		
<i>Controlled entities</i>		
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	90

26 **Events subsequent to balance date**

For reporting periods starting on or after 1 January 2005, the company must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board. The implementation plan and potential impact of adopting AIFRS are detailed in Note 27 to the financial statements.

Subsequent to the year end, the Company in early September 2005, was able to enter into a proposal with Goldchoice Investments Limited to recapitalise the Company coinciding with the election given by IISB Interaktif Sdn Bhd (“IISB”) under the Deed of Company Arrangement (“DOCA”) to acquire all of the Company’s intellectual property assets.

Notes to the financial statements

For the year ended 30 June 2005

26 Events subsequent to balance date (continued)

Under these proposals the following material events occurred:

- 1 IISB elected Alternative 2 under the DOCA to purchase from the Company all of the assets of certain controlled entities (being Intellectual Property and promissory notes) excluding cash and the Deed Fund in exchange for releasing the Company from a debt of \$620,000 owed by the Company to IISB.
- 2 The Company, IISB and Goldchoice Investments Limited, (a Hong Kong based company), entered into a Heads of Agreement dated 6 September 2005 whereby Goldchoice agreed to make available funding to the Company conditional on the events in paragraph 1 occurring and on the following terms.
 - (a) Placement
Goldchoice agrees to subscribe the amount of \$135,000 for a placement of 45 million ordinary shares of CMC, and CMC agrees to issue and allot to Goldchoice, 45 million Shares at an issue price of 0.3 cent per Share to raise \$135,000 under the placement.
 - (c) Loan
Goldchoice agrees to provide to CMC loan funds amounting to \$165,000 which, subject to the approval of CMC shareholders at the 2004 Annual General Meeting, is to be replaced with ordinary shares of CMC issued at 0.3 cent per Share.
 - (c) Options
CMC agrees to issue 233.33 million Options to Goldchoice as part of the agreed funding subject to shareholder approvals.
- 3 Following the election by IISB referred to in paragraph 1, Dato Chuah Beng Hock and Mr Aundre Kok Onn resigned effective on 5 September 2005, and Dato Dr Haji Sallahuddin Kassim and Mr Augustine Chan resigned effective on 9 September 2005. Mr David Fang and Ms Mary Yang were appointed as directors of the Company on 9 September 2005.
- 4 On 9 September 2005, settlement under the Heads of Agreement occurred and Goldchoice injected \$300,000 working capital into the Company representing equity and loan funds referred to in paragraphs 2(a) and 2(b). The Company's intellectual property was transferred to IISB through the transfer of patents and the transfer of the shares of CMC Technologies Pty Limited to IISB effective on 9 September 2005. Loans that had been made by IISB to the Company amounting to \$620,000 were cancelled on this date.

Notes to the financial statements

For the year ended 30 June 2005

26 Events subsequent to balance date (continued)

The agreed terms for the transfer of intellectual property assets to IISB include the following principal conditions as set out in the Deed of Company Arrangement.

- (a) IISB will use all reasonable endeavours to exploit the Intellectual Property through commercial manufacture;
- (b) IISB is to pay a royalty of \$2 to the Company per motor produced by IISB or by any licensee or other party with the approval of IISB; and
- (c) IISB will transfer to the Company subject to its consent, at no cost, the Intellectual Property in the event that IISB or its licensees or any person on its behalf has not exploited the Intellectual Property by the production of a minimum of 1,000 motors within a period of 5 years from the transfer of the Intellectual Property to IISB.

Under the restructured arrangements, the Company has the opportunity to derive royalty income from engines produced from the Malaysian party if it is able to exploit the technology.

The directors also believe that the Company now has the opportunity, with the support of Goldchoice, to seek a new business with a view to restoring and enhancing shareholder value.

As a result of the events, above, the Company has been able to avoid liquidation and retain a royalty interest in the engine technology. The Company, itself, was unable to fund the commercialisation of the technology.

The Company has received advice from the Joint Administrators that the Deed of Company Arrangement has been wholly effectuated on the 28 November 2005 and the Company is formally out of administration.

Notes to the financial statements

For the year ended 30 June 2005

27 Impacts of adopting Australian equivalents to International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the company must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP) applicable for reporting periods ended 30 June 2005.

Transition management

The Board is in the process of establishing a formal implementation project to assess the impact of transition to AIFRS and to achieve compliance with AIFRS for the financial year commencing 1 July 2005. The company is expected to be in a position to fully comply with the requirements of AIFRS for the financial year ending 30 June 2006.

Impact of transition to AIFRS

The impact of transition to AIFRS, including the transitional adjustments disclosed are based on AIFRS standards that management expect to be in place, or where applicable, early adopted, when preparing the first complete AIFRS financial report (being the year ending 30 June 2006). Only a complete set of financial statements and notes together with comparative balances can provide a true and fair presentation of the Company's and consolidated entity's financial position, results of operations and cash flows in accordance with AIFRS.

There is a significant amount of judgement involved in assessing differences between current Australian GAAP to AIFRS, consequently the final reconciliations presented in the first financial report prepared in accordance with AIFRS may vary materially from the information provided in this Note.

Revisions to the selection and application of the AIFRS accounting policies may be required as a result of:

- changes in financial reporting requirements that are relevant to the Company's and consolidated entity's first complete AIFRS financial report arising from new or revised accounting standards or interpretations issued by the Australian Accounting Standards Board subsequent to the preparation of the 30 June 2005 financial report;
- additional guidance on the application of AIFRS in a particular industry or to a particular transaction; and
- changes to the Company's and consolidated entity's operations.

The directors do not believe that there will be any significant differences between AGAAP and AIFRS based upon their preliminary assessment in respect of the consolidated entity. The Company's financial statements contain promissory notes payable and receivable between the parent entity and controlled entities as set out in Notes 6 and 11 to the financial statements. The classification of these balances as financial assets and financial liabilities may differ under AIFRS. The consolidated entity however expects to take advantage of an election under AASB 1 to not restate comparatives under AASB 132 and continue following AGAAP.

**CMC Power Systems Limited
and its controlled entities**

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 18 to 51, 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 2005 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 on 31 January 2006.

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

Scope

We have audited the financial report of CMC Power Systems Limited (“the Company”) for the financial year ended 30 June 2005, consisting of the statements of financial performance, statements of financial position, statements of cash flows, accompanying notes 1 to 27, and the directors’ declaration. 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. Subsequent to 30 June 2005, the Company and its controlled entities have reached a settlement with creditors following the appointment of voluntary administrators and have received additional funding from Goldchoice Investments Limited. In Note 1(a), the directors state their opinion that the going concern basis used in the preparation of the financial report is appropriate given that the above events have occurred.

The Company’s directors are presently reviewing the Company’s strategic direction including new business opportunities which they envisage will result in additional funding being made available to ensure that 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 directors 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. In our opinion, if the Company and consolidated entity are unable to obtain additional funding, 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 Company and/or the consolidated entity may be required to realise their assets and extinguish their 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

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 an 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 2005 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
31 January 2006

CMC Power Systems Limited
ABN 50 008 924 570

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 20 December 2005)

There were no substantial shareholders as at 30 June 2005.

Class of shares and voting rights

At 30 June 2005 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 20 December 2005)

Category	Number of shares	Number of ordinary shareholders
1	– 1,000	318
1,001	– 5,000	650
5,001	– 10,000	502
10,001	– 100,000	1,608
100,001	– and over	477
Total shareholders		3,555

The number of shareholders holding less than a marketable parcel at 20 December 2005 was 2,235.

On-market buy-back

There is no current on-market buy-back.

CMC Power Systems Limited
ABN 50 008 924 570

ASX Additional information (continued)

Twenty largest shareholders (as at 20 December 2005)

Name	Number of ordinary shares held	Percentage of capital held
GoldChoice Investments Limited	45,000,000	12.91
National Nominees Limited	10,104,500	2.90
Fortitude Asset Management Sdn Bhd	10,091,006	2.90
Mr Ian Brooker Drummond	10,000,000	2.87
Ms Choo Kheng Yeoh	10,000,000	2.87
Ms Sock Meng Lek	8,191,912	2.35
Mr Teng Beng Teo	5,787,673	1.66
Sanja Investment Pty Ltd	4,000,000	1.14
Mrs Mei Ling Hilda Fong	3,817,360	1.09
IM3 Corporation Pty Ltd	3,724,970	1.07
Ms Amanda Marie Teo	3,527,273	1.01
Mr Wen Qian Jin & Mrs Yi Wen Chen	3,300,000	0.95
University of Melbourne	3,000,000	0.86
Mr Yue Cao Zhong	2,891,782	0.83
Mrs Dorothy Frances Bloom	2,792,471	0.80
Intelligence Technology Limited	2,600,000	0.75
Ferrell Asset management Ltd	2,353,333	0.67
Dr Siah-Joo Lek	2,000,000	0.57
Mr Geok-Koon Teh	2,000,000	0.57
Mr Tony Sin Pyng Teng	1,791,606	0.57

CMC Power Systems Limited
ABN 50 008 924 570

Corporate directory

Company Secretary

Mr Tony S P Teng

Principal Registered Office

Level 2, 491 Elizabeth Street
Surry Hills NSW 2010
Telephone: 02 9699 9000
Facsimile: 02 9699 9088
Email: tteng@cmcpower.com

Share Registry

Registries Limited
Level 2, 28 Margaret Street
Sydney NSW 2000

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.