CMC POWER SYSTEMS LIMITED
and its controlled entities
CORPORATE DIRECTORY

DIRECTORS
Geoffrey R Baker (Chairman)
Graham H Fountain
Tony S P Teng (Executive)
Teng Beng Teo
Ernest S H Tan
Zakie H Ahmad Shariff (Alternate)

COMPANY SECRETARY
Tony S P Teng

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SHARE REGISTRY
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Level 2, Reserve Bank Building,
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Perth, Western Australia 6000

HOME EXCHANGE
Australian Stock Exchange Limited
Exchange Centre
20 Bridge Street
SYDNEY N.S.W. Australia 2000

AUDITORS
KPMG

SOLICITORS
Aitken McLachlan & Thorpe

BANKERS
Australia and New Zealand Banking Group Limited

CONTENTS
Chairman’s Report 2
Review of Operations and Future Development 4
Corporate Governance Statement 10
Directors’ Report 13
Profit and Loss Accounts 18
Balance Sheets 19
Statements of Cash Flows 20
Notes to the Financial Statements 21
Directors’ Declaration 42
Independent Auditors’ Report 43
Australian Stock Exchange Additional Information 45
The 1999-2000 year has been one of the most successful years for the company in recent times and following the outstanding work by the Board, the company is well placed to move forward. The company has significantly advanced the development of its technology, raised substantial funds, retired all major debt and is now commercialising its SyTech engine technology.

The company has achieved a number of significant milestones this year. These include the following:

- The allotment of a total of 43,348,780 shares under the 1 for 2 non-renounceable rights issue pursuant to the Prospectus dated 9 November 1999 raised $2,167,439. The proceeds of the issue allowed the company to retire short-term liabilities and to provide working capital, including funds for its marketing programme into Year 2000. Following the issue of the shares, the security previously granted to the only secured lender was discharged leaving the company debt-free and its assets unencumbered.

- The company placed 28 million fully paid ordinary shares on 30 March 2000 with private investors at 25 cents per share to raise $7 million. The placement provided funds for the company to pursue investments in e-commerce & technology businesses; secures the funding required for the development and commercialisation of the SyTech technology and working capital.

- axcessaustralia – proved a great launching pad for our innovative technology. The worldwide exhibition of the CMC 414 SyTech engine in the CSIRO’s axcessaustralia Hybrid Low Emission Vehicle (“LEV”) is following its official launch at the Parliament House, Canberra on 31 May 2000. The axcessaustralia LEV is a showcase of Australian technology. The company has embarked on an extensive marketing program from June to December 2000 to capitalise on the exposure the SyTech engine technology will gain from its worldwide exhibition in the axcessaustralia LEV.

- CSIRO’s Australian Automotive Technology Centre has selected CMC’s SyTech engine to join an imposing list of Australian suppliers of advanced technology and components because the CMC engine provides low specific fuel consumption, reduced noise and exhaust emissions and improved mechanical efficiency within itself before the reductions inherent in the hybrid powertrain are brought into consideration.

- A German manufacturer which ranks in the top five car manufacturers in the world has continued to evaluate the SyTech engine technology with increasing interest. A CMC 422 SyTech engine is installed in one of the German company’s production vehicles for testing. The company presented the SyTech engine technology at the manufacturer’s R & D Demonstration Days in May 2000. We are working toward establishing a licensing agreement during the 2000/2001 year.

- The R & D syndication of the company’s technology concluded on 21 September 1999 and the company now has full right and title to its engine technology and patents associated with it.
The company has taken a strategic stake of 8.89 per cent in Powerline Systems - acquired for $2 million. The company is extremely excited at the prospects resulting from the association between Powerline Systems and leading investment bank, Salomon Smith Barney. The company is finalising an exclusive licensing agreement to develop a sophisticated drive system for the innovative GES cogeneration unit developed by Powerline Systems Pty Limited.

The alliance will enable Powerline’s GES system, which is expected to be driven in the future by the company’s exclusive SyTech technology, to make a major impact on the world’s energy market.

While the company has a high priority of expanding the acceptance of the technology through development of these initiatives, the Board is well aware of the need to finalise this commercialisation stage and rapidly increase the revenue potential of the technology.

The Board recognises the invaluable support given to it by all its shareholders both new and old that has enabled it to reach this critical stage of the company’s development.

We have witnessed an extraordinary year for the company with continuing and growing acceptance of this technology with the potential to diversify into other areas of engine commercialisation. There are still many challenges but it will be only a matter of time before we successfully commercialise the CMC SyTech engine technology for the benefit of the company’s shareholders.

Geoffrey R Baker
Chairman
REVIEW OF OPERATIONS AND FUTURE DEVELOPMENTS

COMMERCIALISATION

The Company is looking to the future. The commercialisation of the SyTech Technology is one of the Company’s focuses for the next period. The purpose of the development of the technology has always been to see it implement its commercial applications that show a return for shareholders.

The SyTech technology is evolutionary not revolutionary. The SyTech engine does not rely on new technology it is simply a new design. The knowledge to build SyTech engines reliably is available within car and engine manufacturing companies. The estimated manufacturing cost of SyTech engines are similar or in some cases lower than conventional comparable engines. The SyTech technology does not require the introduction of any exotic materials nor any new manufacturing processes.

The promotion of the technology into commercial applications does, however, require retooling for some components and a conviction that the advantages the company claims are really there. This is the task that the company has been facing for the past few years and continues to face. The difference now is that there are some very significant inroads being made in this area and some very exciting outcomes that will come to fruition over the next year and beyond.

Looking to the 2000/2001 year and beyond the Company is currently engaged in three principal areas of commercial development.

The Automotive Markets

Two SyTech 422 prototype engines have been installed in production cars, the company’s Subaru Liberty sedan (over 50,000 kms of road use) and a vehicle supplied by a major European car manufacturer, both of which have confirmed the advantages of the SyTech engine technology and neither of which has raised any unexpected compromises.

The inclusion of the CMC 414 SyTech engine in the CSIRO’s aXcessaustralia Hybrid Low Emission Vehicle (“LEV”) shows the value of the SyTech engine in hybrid powered vehicle production. The engine was selected because of its efficient operation and its very low noise, vibration and harshness (“NVH”), small size and weight. The aXcessaustralia low emission vehicle (“LEV”) is touring around the world and offers additional presentation and marketing options to the company. With interest from manufacturers and Hybrid Vehicle research and development organisations around the world, the company anticipates that the extensive marketing program from June to December 2000 will capitalise on this exposure.

The aXcessaustralia LEV is currently touring the major vehicle manufacturers in Korea, Japan, Europe and later this year South East Asia and China. The USA is scheduled for visits to manufacturers in the first quarter of 2001. A highlight for the company of the tour in Europe, which runs until mid-October, will be CMC’s more detailed discussions with the major European car manufacturer for the licensing of its SyTech engine technology.
A major European car manufacturer has been extensively evaluating the company’s SyTech technology for use in its vehicles. Feedback from this manufacturer to date has been extremely positive. We expect that continuing evaluation of the technology by the company will lead to a licensing agreement in early 2001.

The SyTech engine technology offers advantages in many areas:

- perfect balance
- very low noise, vibration and harshness (NVH)
- low NOx emissions
- weight advantage
- superior torque
- small size
- longer engine life
- low fuel consumption
- more power
- increased safety

Most of these advantages lead to additional benefits for users of the engine. As an example, because of the reduced vibrations and the lighter weight of the engine, a car manufacturer can also reduce chassis and engine mount specifications reducing the weight and cost of other (non-engine) vehicle components making an even lighter vehicle with its implied advantages in consumption. This advantageous “domino” effect offers users of the SyTech based motor, whether in cars or static, a new realm of design opportunity.

Renowned German engine and transmission mounts manufacturer, WOCO, who specialises in measuring vibrations and optimising engine mounts, has performed independent and comprehensive tests with the SyTech powered car on behalf of the major European manufacturer. WOCO reports that the car with the SyTech 4-cylinder engine has the lowest 2nd order cabin noise level of any 4-cylinder vehicle they have ever tested.

The emissions created by vehicles and static engines is increasingly coming under the scrutiny as governments recognise the need, and legislate for, reductions in emissions. In the future generation of vehicles and of hybrid vehicles in particular, the lower idle speed of the SyTech engine with its implication on fuel consumption and emissions, becomes increasingly important. Hybrid vehicles are the next step in the evolution of cars.

**The Co-generation Markets**

An emerging industry is the Co-generation industry. The SyTech engine technology offers numerous advantages to this industry without the difficulties of the need to redesign vehicles to accommodate them.

Co-generation is the business of generating electrical power using both the torque created by an engine as well as the heat. It also provides for the use of the heat generated to power the hot water, heating, and air-conditioning facilities. At this time the industry is developing systems that stand free in domestic and small business situations and replace the reliance on state supplied power. Operating costs and emissions are significantly reduced.

In August 2000, CMC Power Systems Limited (‘CMC’) secured an 8.89% investment in Powerline Systems Pty Ltd (‘Powerline’). Powerline is a developer and manufacturer of energy generation systems in the co-generation industry. CMC signed an agreement with Powerline, which would see the development of Powerline’s “state of the art” General Energy System (“GES”) co-generation units using SyTech engines.
The Company is currently finalising an exclusive licensing agreement which will see the company’s dedicated research facility at Melbourne University develop the next generation of sophisticated drive systems for the GES co-generation units. The advantages to Powerline in using the SyTech engine over the engine they are currently running are many. They include: the reduction in noise and vibration created by the engine. (A quieter engine with less vibration has obvious advantages in the sale of units to domestic and small business operations); the smaller size of the SyTech engine allows for more compact packaging of the GES units and the reduced emissions offer even more attractive results in the comparison test between traditional power sources and the GES.

The alliance between CMC and Powerline will enable Powerline’s GES system, driven by CMC’s exclusive SyTech technology, to make a major impact on the world’s energy market. The agreement between CMC and Powerline creates a strong synergy for both companies, in a technical and business sense combining SyTech technology with the GES, whilst also providing a platform for strong future revenue flow through royalty payments and licence fees.

Powerline and TXU Australia (a local arm of the United States based Texas Utilities) have successfully installed the GES system and its first major installations at The Alpine High School at Mt Hotham in Victoria and the new Mt Hotham Airport.

In the co-generation industry this is an extremely attractive future. This alliance diversifies the commercial application of the SyTech engine technology from automotive applications into the rapidly expanding Green Energy market with stationary co-generation engines.

**The Industrial Markets and Other Applications**

Current developments are directing the company beyond Original Equipment Manufacturers and Automotive Manufacturers to include sectors such as co-generation and stationary engine applications, motor cycle engines, industrial applications (air compressors and refrigeration compressors), power boat engines and small aircraft engines.

SyTech engines can be used in place of conventional engines in most applications and fuelled by petrol, diesel, CNG or LPG. They produce lower exhaust gas emissions and noise. The compact layout makes the SyTech engines suitable for very small city cars, where the provision of a sufficient crush zone is currently a problem, and for hybrid cars, where the overall size of the electrical components and of the combustion engine is even more critical.

The low noise and vibration characteristics of SyTech engines makes them ideal for the luxury car market as the high power density combined with smooth torque delivery to the powertrain meets the precise requirements of the customer base.

Full balance is achieved with a single balance shaft at crankshaft speed making it possible for large bore 4 cylinder engines with displacements up to 4 litres to be applied to commercial vehicles and vans.

The reduced engine width and the much lower engine vibrations together with a low weight make the CMC Scotch Yoke engine an ideal motor for motorbikes. The small cross section, low weight and low vibrations of CMC’s Scotch Yoke engines are important for small piston engines for aircraft and also for small boats.

Mobile power generators and combined engine/compressor designs are further applications where the compact SyTech engines with their reduced vibrations and NOx emissions and their improved efficiency can make an important difference.
RESEARCH & DEVELOPMENT

Effective from 21 September 1999, CMC concluded its obligation to its investors in its syndicated research and development financing and now has full right and title to its engine technology and associated patents. The two banks, Deutsche Holdings Australia Limited and Credit Agricole Indosuez Australia Limited provided $15.75 million in funding to CMC Research Pty Limited in December 1993. These funds enabled a vigorous development program undertaken from 1994 onwards.

This primary research formed the basis for the mature technological developments which have been incorporated in the SyTech engines powering test vehicles in Europe today and the aXcessaustralia hybrid low emission vehicle (“LEV”). This LEV incorporates a new model engine the CMC 414, (a 1.4 litre displacement). This is a dramatic representation of Australia’s engineering innovation and design capability.

Throughout the year under review, CMCR’s engine designers have undertaken advanced conceptual studies on “small” 2 cylinder ultra low emission engines with negligible vibration registers suitable for domestic co-generation application. Test engines are to be manufactured and trialled during 2001 with an introduction to the market once the design meets the specified performance criteria for installation in public, industrial buildings and domestic housing.

Durability of the CMC SyTech automotive engines has occupied much of the testing and refinement engineering throughout the year. Our customer demands absolute proof of the durability of our linear bearings to withstand a lifetime service without diminished efficiency. The method by which these characteristics are tested involves procedures so severe that any minor imperfection in the engine is revealed with dramatic clarity.

Shareholders may wish to review the progress of the technology on the following home page on the internet: http://www.mame.mu.oz.au/~das/

MARKETING

Tour of Major Asian Car Manufacturers
June 2000

The Company has launched the latest 1.4 litre SyTech engine in Asia at the 2000 FISITA World Congress in Seoul, Korea attended by thousands of motor industry personnel and engineers.

The CMC SyTech engine was displayed as part of the aXcessaustralia’s hybrid-electric low emission vehicle (“LEV”) roadshow in Asia. The SyTech engine powered driveline features a host of new patented technology from both CMC and CSIRO.

The latest CMC 414 SyTech engine, which drives the generator that provides the electrical energy for the traction motor of aXcessaustralia’s hybrid-electric LEV, has about 30% less box volume and weighs about 30% less than conventional engines and makes the packaging of the drivetrain possible without sacrificing the rear luggage compartment area. Further, the engine being fully balanced, operates with lower noise, vibration and harshness characteristics thus providing excellent driver acceptance of the electric drive.
The CMC engine has generated much interest both in Australia and internationally, since its selection as the engine to power aXcessaustralia’s latest low emission vehicle (“LEV”). Demonstrations were made to executives and engineers of Daewoo and Hyundai in Korea and Honda, Subaru, Mitsubishi and Toyota in Japan. During individual manufacturer’s demonstrations, solid contacts have been established, which will lead to further discussions once the manufacturers have reviewed the technologies presented within the context of their present and future manufacturing plans.

Tour of Europe’s Major Car Manufacturers

September 2000

The Company recently embarked on an extensive roadshow of Europe’s major automobile manufacturers including:

- **Germany**
  The Automechanika Motor Show, Volkswagen, GMC Opel, Daimler Chrysler, Porsche, Ford of Europe, Audi, BMW

- **United Kingdom**
  MIRA and Ricardo

- **France**
  PSA Peugeot, Citroen, Renault

- **Austria**
  Steyr-Daimler-Puch

- **Italy**
  Fiat & ANFIA

The company will also hold discussions with representatives from Europe’s leading refrigeration and compressor manufacturers with a view to licensing its SyTech engine technology. The company will display its new 1.4 litre SyTech engine in the aXcessaustralia hybrid-electric vehicle and hold discussions with a range of companies.

CORPORATE

- The allotment of a total of 43,348,780 shares under the 1 for 2 non-renounceable rights issue pursuant to the Prospectus dated 9 November 1999 raised $2,167,439.

- The company placed 28 million fully paid ordinary shares on 30 March 2000 with private investors at 25 cents per share to raise $7 million. The placement provided funds for the company to pursue investments in e-commerce & technology businesses; secures the funding required for the development and commercialisation of the SyTech technology and working capital.

- Mr. Ernest Saik Hock Tan was appointed a director on 21 June 2000. He currently serves on boards of directors of various corporations in Singapore and Malaysia in the area of investments, property, cement and technology, including Tasek Corporation Berhad (Main Board listed company in Malaysia).
PATENTS

Patent activity continued with the maintenance of our existing worldwide patent related to the SyTech technology. We have been granted patents in all major industrialised countries for both the mechanism comprising the core technology and the lubrication of the bearings of that mechanism. This combination of patents provides the maximum protection of the Company’s assets available.

Worldwide patents are in place to protect the CMC technology. The two primary patents applicable to the SyTech Technology are:

- **“C” Plate Yoke and Variants**
  This patent relates to the method whereby two connecting rods of a pair of pistons are rigidly fastened together so as to form the running surfaces for the linear bearings of the slider block. Absolute accuracy of the distance between the feet of the connecting rods must be maintained under all engine operating conditions.

- **Scotch Yoke Lubrication**
  The method by which a measured and more importantly timed charge of lubricating oil is provided to the sliding linear bearing surfaces is the basis of this primary patent. Without the correct point of oil introduction being achieved the moving bearing surfaces could not be held apart by the hydrodynamic oil film generated by the patented lubrication system.

Patent activity continued with primary emphasis on the existing patents. Additional patents will be applied for during the next phase of engine development.

As the commercialisation of our SyTech technology progresses through the additional phase of manufacturing engineering, new patent activity will be required to protect the methods of volume production and the machinery applied to the manufacture.
This statement outlines the main Corporate Governance practices that were in place throughout the financial year, unless otherwise stated. These practices are dealt with under the following headings: Board of Directors, Internal Control Framework, Ethical Standards, and The Role of the Shareholders.

The consolidated entity is engaged in the research and development of an internal combustion engine using the Scotch Yoke technology. The research and development is contracted to third parties with the consolidated entity having only one employee.

**Board of directors**

**Role of the Board**

The Board’s primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the Board is responsible for the overall Corporate Governance of the consolidated entity including its strategic direction, the setting of the overall goals for management and monitoring of the achievement of these goals.

**Board processes**

To assist in the execution of its responsibilities, the Board has established an Audit Committee. The Board meets frequently, primarily by electronic media, to receive and consider proposals, plus any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise. The Board has also established a framework for the management of the consolidated entity including a system of internal control, and a business risk management process.

The Board conducts an annual review of its processes to ensure that it is able to carry out its functions in the most effective manner.

**Composition of the board**

The names of the directors of the Company in office at the date of this Statement are set out in the Director’s Report on pages 12 to 16 of this financial report.

The composition of the Board is determined using the following principles:

- The Board should comprise of at least four directors. This number may be increased where it is felt that additional expertise is required or when an outstanding candidate is identified.

- The Chairman of the Board should be a non-executive director.

- The Board should comprise a majority of non-executive directors.

- The Board should comprise of directors with a broad range of expertise both nationally and internationally.
Independent professional advice

Each director has the right to seek independent professional advice at the consolidated entity's expense. However, prior approval of the Chairman is required, which is not unreasonably withheld.

Remuneration

The Board reviews and sets the remuneration packages and policies applicable to senior management and the Board themselves.

Further details of Directors' remuneration and benefits are set out in Notes 20 and 22 to the financial statements.

Audit committee

There is an Audit committee comprising two members of the Board.

Representatives of the committee will meet with the external auditors as required during the year.

The committee approves the Half-Year and Annual Reports prior to them being issued.

The committee also reviews the internal control procedures on an annual basis to ensure that they are functioning properly and are appropriate given the consolidated entity's current level of activities. There is no internal audit function.

The committee reviews any new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles.

Business risk management process

The consolidated entity is engaged in research and development activities relating to internal combustion engines and the marketing thereof. The very nature of a single purpose research and development consolidated entity creates unique opportunities for reward coupled with a high level of risk, dependent upon the success or otherwise of the technical development and its commercial acceptance.

The Board considers that in light of the nature of the business that the impact of external risk factors, other than the risks inherent in the development and role of the technology, are insignificant.

All risk factors are assessed by the Board in making any decisions relating to the consolidated entity's technology.

Internal control framework

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. To assist in discharging this responsibility, the Board has instigated an internal control framework that can be described under the following headings:

Financial reporting – there is a comprehensive budgeting system with an annual budget approved by the directors. Actual results are reported against budget and revised forecasts for the year are prepared. The consolidated entity reports to shareholders half-yearly. Procedures are also in place to ensure that proce sensitive information is reported to the ASX in accordance with Continuous Disclosure Requirements.
Investment appraisal – the consolidated entity has clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where there are potential business acquisitions.

**Ethical standards**

Due to its small size and circumstances, the consolidated entity does not have an Ethical Standards Manual. All Directors are expected to act with the utmost integrity, objectivity and business ethics whilst engaged in corporate activities, whilst, striving at all times to enhance the reputation and performance of the consolidated entity.

**The role of shareholders**

The Board of Directors aims to ensure that the shareholders are informed of all major developments affecting the consolidated entity's state of affairs. Information is communicated to Shareholders as follows:

- the Annual Report is distributed to all shareholders;
- the half-yearly report contains summarised financial information and a review of the operations of the consolidated entity during the period. Half-yearly financial statements are lodged with the Australian Securities and Investment Commission and the Australian Stock Exchange. The Board also ensures that the full financial report is available to all shareholders should they request it; and
- proposed major changes in the consolidated entity which may impact on share ownership rights are submitted to the vote of the shareholders; and
- notices of all meetings of shareholders.

The Board encourages active participation of the shareholders at General Meetings 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.

The shareholders are responsible for voting on the appointment of Directors.
DIRECTORS' REPORT

The directors present their report together with the financial report of CMC Power Systems Limited ("the Company") and the consolidated financial report of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2000 and the auditor’s report thereon.

DIRECTORS

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

Geoffrey Robert BAKER (Chairman)
B Com. LLB, MBA
Age 44

Mr Baker was appointed as a director on 16 July 1997 and as Chairman on 27 November 1997. He has been a partner in the corporate and commercial division of Hunt & Hunt up until 30 June 1998. He has been practising as a lawyer for 19 years specialising in the areas of capital raisings, listings, mergers and acquisitions both domestically and internationally including in Japan and South East Asia. He is a director of a number of companies and represents international organizations doing business in Australia. Mr Baker is an Investment Banker with Harrington Partnership Limited, Sydney.

Graham Harry FOUNTAIN
C Eng MINA, MSA, Finst.D
Age 66

Mr Fountain was appointed a director on 24 September 1982. He has been directly involved in the research and development of the Collins technology since 1987. He is a Chartered Engineer, Fellow of the Institute of Directors (UK) and a Member of the Society of Automotive Engineers. He is a Director of CMC Research Pty Ltd. Mr Fountain is the co-inventor of one of the companies primary patents related to the lubrication of the scotch yoke bearings.

Tony Sin Pyng TENG – Executive Director and Secretary
B Econ, Dip Fin Mangt, CPA, FAICD, AFAIM
Age 47

Mr Teng was appointed a director on 16 July 1997 and Secretary on 3 October 1997. Mr Teng has been a qualified accountant for over 20 years. He is also 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. He has acted as a management consultant since 1991.

Teng Beng TEO
B Sc., B.E. (Hons)., Grad. Dip. I.E.
Age 54

Mr Teo was appointed as a director on 1 December 1998. Mr Teo is an executive director of various companies in Singapore, Australia, Vietnam and China in the areas of manufacturing, property development, forex, leisure and investment. In addition Mr Teo is a significant shareholder of the Company. Mr Teo graduated as an electrical engineer from the University of New South Wales.
Ernest Saik Hock TAN  
Age 52

Mr. Tan was appointed as a director on 21 June 2000. Mr. Tan is the Managing Director of Wah Aik & Co Pte Limited, an investment company based in Singapore. He currently serves on boards of directors of various corporations in Singapore and Malaysia in the area of investments, property, cement and technology, including Tasek Corporation Berhad (Main Board listed company in Malaysia).

Mr. Tan has lived in Australia for 13 years and prior to his return to Singapore, held executive positions in various Australian and Singapore companies. Mr Tan is a Commerce graduate from the University of NSW and completed further post-graduate studies in Business and Accounting at Charles Stuart University and The University of New England.

Zakie Hj. Ahmad SHARIFF (Alternate Director)  
B Econ.(Hons), M.S.Accounting  
Age 42

Appointed as alternate director for Mr Tony S P Teng on 27 November 1997. Ahmad Zakie Bin Hj Ahmad Shariff is the Managing Partner and Chief Executive Officer of Melor Permata Capital Management Sdn Bhd, managing up to RM200 million worth of assets. Prior to his current position, he was the Chief Executive Officer of PTB Asset Management Sdn. Bhd. Prior to his current position, he has held several senior posts in public companies and securities firms and also has extensive teaching experience. He also acted as consultant to large corporations. Mr. Ahmad Zakie has addressed numerous seminars and presented papers on the Stockbroking Industry and Unit Trusts & Capital Markets in Malaysia. He holds a Bachelor of Economics from UKM, Bangi and Master of Accounting Science from the University of Illinois, USA.

DIRECTORS’ MEETINGS

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

<table>
<thead>
<tr>
<th>Director</th>
<th>No. of meetings attended</th>
<th>No. of meetings held whilst in office</th>
</tr>
</thead>
<tbody>
<tr>
<td>G Baker</td>
<td>10</td>
<td>10</td>
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<tr>
<td>GH Fountain</td>
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<td>T Teng</td>
<td>10</td>
<td>10</td>
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<tr>
<td>Teng Beng Teo</td>
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<td>10</td>
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<tr>
<td>Zakie H Ahmad Shariff</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(Alternate to T Teng)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>E S H Tan</td>
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</tr>
</tbody>
</table>

The Audit Committee did not meet during the financial year as its responsibilities were carried out by the Board.

PRINCIPAL ACTIVITY

The principal activity of the consolidated entity during the course of the financial year was the research and development and marketing of an internal combustion engine incorporating the Scotch Yoke Technology. There has been no significant change in the nature of the activities of the consolidated entity during the year.
REVIEW, RESULTS OF OPERATIONS AND LIKELY DEVELOPMENTS

The consolidated loss after income tax for the consolidated entity for the financial year ended 30 June 2000 was $1,450,155 (1999: $881,369).

The consolidated entity has incurred a loss for the financial year due to the technology still being in the developmental and pre-commercialisation stage with the consolidated entity incurring significant developmental and marketing costs as a consequence.

A review of the operations of the consolidated entity during the financial year, the results of those operations and the likely developments in the operations of the consolidated entity in subsequent financial years are set out on pages 4 to 8. Other than as referred to in this report, further information about likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

DIVIDENDS

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

STATE OF AFFAIRS

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

(i) The R & D syndication of the company’s technology concluded on 21 September 1999 and the company now has full right and title to its engine technology and patents associated with it.

(ii) The Company issued the following ordinary shares during the financial year:

- On 7 July 1999, the Company, in accordance with shareholders’ approval at the General Meeting held on 22 March 1999 allotted and issued 33,810,225 fully paid ordinary shares at 1.5 cents per share; 3,250,000 ordinary shares for nil consideration, and 46,583,333 Year 2002 Options as part of the terms of the convertible note announced on 4 January 1999.

- On 21 December 1999, the company allotted 43,348,780 shares at 5 cents per share under the 1 for 2 non-renounceable rights issue pursuant to the Prospectus dated 9 November 1999 to raise $2,167,439. The proceeds of the issue allowed the company to retire short-term liabilities and to provide working capital, including funds for its marketing programme into the Year 2000.

- On 24 January 2000, the company allotted 10,453,613 shares of between 5 cents and 30 cents per share in full and final satisfaction of $1,393,696 owed by the company to creditors, including a secured liability.

- On 23 February 2000, the company allotted 1,538,462 shares at 13 cents per share to raise $200,000 for working capital.

- On 31 March 2000, the company successfully placed 28,000,000 shares at 25 cents per share to raise $7,000,000.
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.

EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to balance date, CMC Power Systems Limited (‘CMC’) invested $2 million in Powerline Systems Pty Ltd (‘Powerline’), in return for an 8.89% investment in the company. Powerline is a developer and manufacturer of energy generation systems. CMC signed an agreement with Powerline, which would see the development of CMC’s SyTech engine technology in order to power Powerline’s latest General Energy System (“GES”) co-generation units to supply electrical and heating needs for households and small businesses.

It is intended the two parties will sign an exclusive licensing agreement which will include a lump sum payment to CMC of $250,000 plus a royalty for use of the SyTech drive system. When achieved it will lead to the first commercialisation of CMC’s SyTech engine. The two parties will form a joint-venture to exploit the intellectual property from the development of the SyTech/GES drive system for the global market.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

DIRECTORS’ AND SENIOR EXECUTIVES’ EMOLUMENTS

The Board is responsible for making recommendations on remuneration policies and packages applicable to the Board members and senior executives of the Company.

Executive directors may receive bonuses in the future based on the achievement of specific goals related to the performance of the consolidated entity, specifically the commercialisation of the SyTech engine technology.

Details of the amount of each of the emoluments of each director of the Company and each of the five named officers of the Company and the consolidated entity receiving the highest emoluments are detailed in Notes 20 and 22(c) to the financial statements. Emoluments paid to directors during the year represent a base component only in accordance with a contract between the executive directors and the Company.

OPTIONS

During or since the end of the financial year, the Company has granted options (“2002 options”) as disclosed in Note 18 to the financial statements.

No options were granted to the directors during the year.
**DIRECTORS’ INTERESTS**

The relevant interest of each director in the share capital of the companies within the consolidated entity, as notified by the directors to the Australian Stock Exchange in accordance with S205G(1) of the Corporations Law, at the date of this report is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Ordinary shares</th>
<th>Listed options over ordinary shares</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Direct interest</td>
<td>Indirect interest</td>
</tr>
<tr>
<td>Teng Beng Teo</td>
<td>2,031,000</td>
<td>-</td>
</tr>
<tr>
<td>Fountain GH</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Baker GR</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Teng SP</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Shariff AZ</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Tan E S H</td>
<td>1,300,000</td>
<td>-</td>
</tr>
</tbody>
</table>

Signed in accordance with a resolution of the Directors.

---

Graham H Fountain
Director

Dated

---

Tony S P Teng
Director

Dated
CMC POWER SYSTEMS LIMITED  
and its controlled entities  
PROFIT AND LOSS STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2000

<table>
<thead>
<tr>
<th>Note</th>
<th>Consolidated</th>
<th>The Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2000</td>
<td>1999</td>
</tr>
<tr>
<td></td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Revenue</td>
<td>2</td>
<td>298,348</td>
</tr>
<tr>
<td>Operating loss before abnormal item and income tax</td>
<td>3</td>
<td>1,450,155</td>
</tr>
<tr>
<td>Abnormal item</td>
<td>5</td>
<td>-</td>
</tr>
<tr>
<td>Operating loss before income tax</td>
<td></td>
<td>1,450,155</td>
</tr>
<tr>
<td>Income tax attributable to operating loss</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td>Operating loss after income tax</td>
<td></td>
<td>1,450,155</td>
</tr>
<tr>
<td>Accumulated losses at the beginning of the financial year</td>
<td></td>
<td>9,278,191</td>
</tr>
<tr>
<td>Accumulated losses at the end of the financial year</td>
<td></td>
<td>10,728,346</td>
</tr>
</tbody>
</table>

The profit and loss statements are to be read in conjunction with the notes to the financial statements set out on pages 21 to 41.
### CMC Power Systems Limited and its controlled entities

**Balance Sheets as at 30 June 2000**

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 21 to 41.
CMC POWER SYSTEMS LIMITED
and its controlled entities
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2000

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>

CASH FLOWS FROM OPERATING ACTIVITIES

Cash receipts in the course of operations 38,627 353,883 38,627 353,691
Cash payments in the course of operations (2,037,132) (1,299,183) (2,037,128) (1,298,934)
Interest received 22,870 - 22,870 -
Income tax paid - (15,200) - (15,200)
Net cash used in operating activities 23(ii) (1,975,635) (960,500) (1,975,631) (960,443)

CASH FLOWS FROM INVESTING ACTIVITIES

Payments for plant and equipment (785) (20,823) (785) (20,823)
Payments for controlled entities - (2) (4) (2)
Net cash used in investing activities (785) (20,825) (789) (20,825)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from borrowings - 666,087 - 666,087
Repayment of borrowings (158,934) - (158,934) -
Proceeds from share issues 8,895,161 240,004 8,895,161 240,004
Net cash provided by financing activities 8,736,227 906,091 8,736,227 906,091

Net increase/(decrease) in cash held 6,759,807 (75,234) 6,759,807 (75,177)
Cash at the beginning of the financial year (57,098) 18,136 (57,098) 18,079
Cash at the end of the financial year 23(i) 6,702,709 (57,098) 6,702,709 (57,098)

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 21 to 41.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2000

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 Law.

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

The 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 Company will be able to raise sufficient capital to pursue its objectives, realise its assets and discharge its liabilities in the ordinary course of business. The Directors are confident of the successful development of the Company's technology.

The ability of the Company to continue as a going concern is dependent upon the success of planned research and development activities, the availability of adequate funding, the success of any other subsequent fund-raising activities necessary during the period of development and the successful commercial exploitation of the Company's technology.

b. Principles of consolidation

The consolidated financial statements of the consolidated entity include the financial statements of the Company, being the parent entity, and its controlled entities ("the consolidated entity").

When an entity either began or ceased to be controlled during the year, the results are included only from the date control commenced or up to the date control ceased.

The balances, and effects of transactions, between controlled entities included in the consolidated financial statements have been eliminated.

c. Non-current assets

The carrying amounts of non-current assets are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount. In assessing recoverable amounts of non-current assets the relevant cash flows have not been discounted to their present value, except where specifically stated.

The carrying amounts of intangible non-current assets, being patents and industrial property rights and research and development costs are treated in accordance with notes 1 (j) and 1 (k), respectively.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2000

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Plant and equipment

   Acquisition
   Items of plant and equipment are initially recorded at cost and depreciated as outlined below.

   Depreciation and amortisation
   Items of plant and equipment are depreciated/amortised over their estimated useful lives. The
   straight line method is used except in the case of computer equipment where the reducing balance
   method is used. Plant and equipment is depreciated at rates ranging from 15% to 33.3%.

   Assets are depreciated or amortised from the date of acquisition.

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 profit and loss statement in the financial year in which
the exchange rates change.

   Translation of controlled foreign entity
   The financial statements of the foreign controlled entity (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 balance 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 profit and loss statement.

f. Taxation

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

   Income tax expense is calculated on operating profit 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 balance sheet 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 2000

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Cash, short term deposits and bank overdrafts

Cash, short term deposits and bank overdrafts are carried at face value of the amounts deposited or drawn. Interest revenue is accrued at the market or contracted rates and is receivable quarterly.

h. Receivables

Trade debtors are generally settled within 60 days and are carried at amounts due. The collectibility of debts is assessed at year end and specific provision is made for any doubtful accounts.

i. Investments in controlled entities

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount. Dividends and distributions are brought to account in the profit and loss statement when they are declared by the controlled entities.

j. Patents and industrial property rights

Patents and industrial property rights are carried forward at Directors' valuation on the basis of the Directors' belief that there is a reasonable expectation that future net revenues will exceed the carrying amount of the assets.

k. 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 and amortised on a straight line basis over the period in which the related benefits are expected to arise.

The successful development and exploitation of the project has not reached a stage that enables recovery of these costs to be expected "beyond reasonable doubt".

All research and development costs incurred during the year are charged to the profit and loss statement except for continuing patents costs which have been fully provided for in the current year.

Where a grant is received relating to research and development costs that have been charged to the profit and loss statement as incurred, the grant is recognised as revenue.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2000

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l. Deferred income - Research and development activities

Where funds are received in advance for research and development activities, the funds are deferred to the extent that the related work has yet to be performed and hence the income earned.

Where funds have been received for the sale of technology pursuant to a Research and Development Syndication Agreement, those funds are accounted for as deferred income until such time as the ultimate disposition of the asset being sold is determined (refer also Note 12).

m. Accounts payable

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Company or consolidated entity. Trade accounts payable are normally settled within 90 days.

n. Revenue recognition

Sales revenue

Sales revenue comprises revenue earned (net of returns, discounts and allowances) from the provision of products or services to entities outside the consolidated entity. Sales revenue is recognised when control of goods passes to the customer.

Interest income

Interest income is recognised as it accrues.

Asset sales

The gross proceeds of asset sales are included as revenue of the consolidated entity. The profit or loss on disposal of assets is brought to account at the date an unconditional contract of sale is signed.

o. Loans

Loans are carried on the balance sheet at their principal amounts.

p. Derivatives

The consolidated entity is not exposed significantly to changes in interest rates, foreign exchange rates and commodity prices nor is it exposed to credit risk. The Board is conscious of the need to establish policies and procedures in each of these areas to manage such exposures where they increase in significance.

Accordingly, 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.
# NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2000

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2. REVENUE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Revenue from operating activities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales revenue</td>
<td>2,481</td>
<td>177,714</td>
<td>2,481</td>
<td>177,714</td>
</tr>
<tr>
<td>Interest</td>
<td>104,459</td>
<td>-</td>
<td>104,459</td>
<td>-</td>
</tr>
<tr>
<td>Forgiveness of debt</td>
<td>155,262</td>
<td>-</td>
<td>155,262</td>
<td>-</td>
</tr>
<tr>
<td>Other income</td>
<td>36,146</td>
<td>58,049</td>
<td>36,146</td>
<td>58,049</td>
</tr>
<tr>
<td></td>
<td>298,348</td>
<td>235,763</td>
<td>298,348</td>
<td>235,763</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>3. OPERATING LOSS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating loss before abnormal tax item and income tax has been arrived at after charging/(crediting) the following items:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation of plant and equipment</td>
<td>11,338</td>
<td>7,217</td>
<td>11,338</td>
<td>7,217</td>
</tr>
<tr>
<td>Research and development expenditure written off</td>
<td>1,079,643</td>
<td>677,572</td>
<td>1,079,643</td>
<td>677,572</td>
</tr>
</tbody>
</table>
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2000

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>4. AUDITORS' REMUNERATION</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit services</td>
<td>25,000</td>
<td>25,000</td>
<td>25,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Other services</td>
<td>6,650</td>
<td>12,650</td>
<td>6,650</td>
<td>12,650</td>
</tr>
<tr>
<td></td>
<td>31,650</td>
<td>37,650</td>
<td>31,650</td>
<td>37,650</td>
</tr>
<tr>
<td>5. ABNORMAL ITEM</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gain associated with forgiveness of directors’ fees and creditors</td>
<td>-</td>
<td>199,715</td>
<td></td>
<td>199,715</td>
</tr>
<tr>
<td>Income tax effect</td>
<td>-</td>
<td>(71,897)</td>
<td>-</td>
<td>(71,897)</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>127,818</td>
<td>-</td>
<td>127,818</td>
</tr>
<tr>
<td>Aggregate abnormal items before income tax</td>
<td>-</td>
<td>199,715</td>
<td>-</td>
<td>199,715</td>
</tr>
<tr>
<td>Aggregate income tax effect</td>
<td>-</td>
<td>(71,897)</td>
<td>-</td>
<td>(71,897)</td>
</tr>
<tr>
<td>Aggregate abnormal items after income tax</td>
<td>-</td>
<td>127,818</td>
<td>-</td>
<td>127,818</td>
</tr>
<tr>
<td>6. TAXATION</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income tax expense</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prima facie income tax benefit calculated at 36% (1999: 36%) on the operating loss</td>
<td>(522,056)</td>
<td>(317,293)</td>
<td>(522,056)</td>
<td>(319,720)</td>
</tr>
<tr>
<td>Increase in income tax expense due to:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal and consulting fees</td>
<td>32,549</td>
<td>-</td>
<td>32,549</td>
<td>-</td>
</tr>
<tr>
<td>Sundry items (including entertainment)</td>
<td>976</td>
<td>6,918</td>
<td>976</td>
<td>6,918</td>
</tr>
<tr>
<td>Current year tax loss not carried forward as a future income tax benefit</td>
<td>488,531</td>
<td>310,375</td>
<td>488,531</td>
<td>312,802</td>
</tr>
<tr>
<td>Income tax expense on operating loss</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2000

Consolidated The Company
2000 1999 2000 1999
$ $ $ $

6. TAXATION (continued)

Future income tax benefit not brought to account

The potential future income tax benefit arising from
tax losses has not been recognised as an asset
because recovery is not virtually certain:
Tax losses carried forward 2,577,510 2,240,598 2,577,510 2,240,598

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.

Dividend franking account

Consolidated The Company
2000 1999 2000 1999
$ $ $ $

Balance of franking account adjusted for
franking credits which will arise from the
payment of income tax provided for in
the financial statements.

Class C (34%) franking credits 521,340 - 171,744 -
Class C (36%) franking credits - 473,212 - 157,287

The ability to utilise the franking account credits
is dependent upon there being sufficient available
profits to declare dividends.
CONSOLIDATED THE COMPANY

2000 1999 2000 1999

$ $ $ $ 

7. RECEIVABLES

Current
Sundry debtors 85,057 4,035 85,049 4,031
Amount owing by controlled entity - - 182,082 182,082
Less: Provision for loss - - (182,082) (182,082)

85,057 4,035 85,049 4,031

Non-current
Amount owing by controlled entity - - 1,766,215 1,766,215
Less: Provision for loss - - (1,766,215) (1,766,215)

- - - -

The parent entity has agreed to subordinate its loan to other creditors of the controlled entity.

8. OTHER CURRENT ASSETS

Non-recourse loan - 13,924,561 - 12,874,563

The loan was a limited recourse loan granted under the terms and conditions of the Research and Development Syndication entered into by the consolidated entity. The R & D syndicate was officially wound up on 21 September 1999.

Further details are disclosed in Note 12.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2000

<table>
<thead>
<tr>
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<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>

9. INVESTMENTS

<table>
<thead>
<tr>
<th>Shares in controlled entities</th>
<th>Interest held</th>
</tr>
</thead>
<tbody>
<tr>
<td>– at cost</td>
<td>%</td>
</tr>
</tbody>
</table>

Collins Motor Corporation (UK) Ltd
(incorporated in United Kingdom)
Interest held 100 - - 4 4

CMC Research Pty Ltd
(incorporated in Australia)
Interest held 100 - - 2 2

CMC Management Pty Ltd
(incorporated in Australia)
Interest held 100 - - 2 2

Omessa Holdings Pty Ltd
Interest held 100 - - 2 -

Lewberg Pty Ltd
Interest held 100 - - 2 -

Collins Motor Corporation (UK) Limited is audited by the UK member firm of KPMG.

CMC Research Pty Ltd, CMC Management Pty Ltd, Omessa Holdings Pty Ltd and Lewberg Pty Ltd are small proprietary companies as defined by the Corporations Law and are not required to be audited for statutory purposes.

CMC Research Pty Ltd acquired 100% of the ordinary shares of Omessa Holdings Pty Ltd and Lewberg Pty Ltd on 21 September 1999 for $2 each. The fair value of the net assets of these companies was $2.

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>

10. PLANT AND EQUIPMENT

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>79,167</td>
<td>78,382</td>
<td>74,322</td>
<td>73,537</td>
</tr>
<tr>
<td>Less: Accumulated depreciation</td>
<td>(50,199)</td>
<td>(38,861)</td>
<td>(45,354)</td>
<td>(34,016)</td>
</tr>
<tr>
<td></td>
<td>28,968</td>
<td>39,521</td>
<td>28,968</td>
<td>39,521</td>
</tr>
</tbody>
</table>
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2000

Consolidated The Company

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>1999</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>

11. INTANGIBLES

**Patents and industrial property rights**
At Directors' valuation April 1985

<table>
<thead>
<tr>
<th>Description</th>
<th>2000</th>
<th>1999</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of Collins Engine</td>
<td>716,360</td>
<td>716,360</td>
<td>716,360</td>
<td>716,360</td>
</tr>
<tr>
<td>Stamp duty</td>
<td>11,168</td>
<td>11,168</td>
<td>11,168</td>
<td>11,168</td>
</tr>
<tr>
<td>Legal fees</td>
<td>7,324</td>
<td>7,324</td>
<td>7,324</td>
<td>7,324</td>
</tr>
<tr>
<td>Patent costs</td>
<td>28,413</td>
<td>28,413</td>
<td>28,413</td>
<td>28,413</td>
</tr>
<tr>
<td></td>
<td>763,265</td>
<td>763,265</td>
<td>763,265</td>
<td>763,265</td>
</tr>
<tr>
<td>Add: Surplus on revaluation</td>
<td>6,131,135</td>
<td>6,131,135</td>
<td>6,131,135</td>
<td>6,131,135</td>
</tr>
<tr>
<td></td>
<td>6,894,400</td>
<td>6,894,400</td>
<td>6,894,400</td>
<td>6,894,400</td>
</tr>
</tbody>
</table>

The patents and industrial property rights were revalued by the Directors in April 1985 to $8,000,000. The amount of $8,000,000 was determined after having regard to all information concerning the technological and commercial status of the Collins Engine Project at the time. The Company sold an interest in future revenue to be derived from its patents and industrial property rights. The Directors have written down the carrying value of the patents and industrial property rights to reflect this sale. The interest in future revenue has been recovered as the result of the termination of the TNT royalty agreement.

The recovery of the value attributed to the patents and industrial property rights is dependent upon the successful commercial exploitation of the Company's technology.
12. RESEARCH AND DEVELOPMENT FUNDING

In December 1993, the consolidated entity entered into syndication agreements whereby it undertook research and development on behalf of third parties. Under the terms of these agreements, the Joint Venture participants ("Investors") acquired for $11,200,000 the core technology owned by the consolidated entity. The proceeds of the sale were held in a restricted deposit account to meet future obligations. The consolidated entity contracted with the Investors to spend $4,550,000 on a Research and Development ("R & D Programme") to further develop the Scotch Yoke Technology. The R & D Programme was completed on 23 December 1995.

The consolidated entity entered into a marketing agreement with the Investors whereby the consolidated entity had first right to negotiate an exclusive licence for commercial use of new technology developed in the R & D Programme subject to the payment of a first right of refusal fee of $50,000 and an advanced royalty payment ("ARP").

If the R & D Programme had been deemed a success, the first right of refusal fee and ARP would have been payable on 23 December 1995. Under the terms of these agreements the project was deemed a technical success but a commercial failure and the amount of $13,924,561 was loaned to the Investors in the form of limited recourse loans.

The commercial success of the project was reviewed again on 23 December 1997 at which time the project was deemed a failure. Under the terms of the contracts existing between the parties, the limited recourse loan was able to be forgiven in the future.

In the Company, income received from the sale of core technology was treated as deferred income matched by a deferred liability representing a significant portion of the ARP. Interest received on the restricted deposit account was treated as income in the period with a corresponding amount shown as a liability to reflect the consolidated entity's future obligations under the Agreements.

The consolidated entity recognised that the proceeds from the sale of the core technology, together with interest earned on funds held on restricted deposits and profits generated by the R & D Programme would equate with the amount of the ARP or limited recourse loans. Under the terms of the syndication agreements the Company had guaranteed the performance of its controlled entity. It had also indemnified the Investors against the non-deductibility of the R & D expenditure and changes in the applicable tax legislation during the period of the syndication.

On 21 September 1999, the Company’s wholly owned subsidiary, CMC Research Pty Limited purchased two companies from Credit Agricole Indosuez Australia Limited and Deutsche Holdings Australia Limited ("the Banks").

The purchase of the companies concluded the R & D Syndicated Funding entered into between the Banks and CMC Power Systems Limited in 1993. Our patented SyTech Technology was at the time of our purchase owned by the companies now inducted into the CMC Group.

The consideration for the purchase of the companies and the procedures necessary to the winding up of the Research and Development Syndicate have the approval of the Australian Taxation Office and the monitoring division of the federal Department of Industry Science and Resources.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2000

Consolidated  The Company
2000  1999  2000  1999
$     $     $     $ 

13. ACCOUNTS PAYABLE

Current
Creditors and accruals  231,317  2,020,498  231,309  1,966,122

14. BORROWINGS

Current
Bank overdraft - unsecured  -  57,098  -  57,098
Secured loan  -  652,087  -  652,087
Unsecured loan  -  14,000  -  14,000

-  723,185  -  723,185

The loan was secured by a deed of fixed and floating charge over the Company’s assets.

15. PROVISIONS

Current
Income tax  229,247  204,879  32,668  32,668

16. OTHER CURRENT LIABILITIES

Deferred income -
Research and development syndication  -  13,924,561  -  12,874,563
17. SHARE CAPITAL

Issued and paid up capital
193,411,577 (1999: 73,010,497) ordinary shares, fully paid

<table>
<thead>
<tr>
<th></th>
<th>Consolidated</th>
<th>The Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2000 ($)</td>
<td>1999 ($)</td>
</tr>
<tr>
<td>Share capital</td>
<td>23,521,044</td>
<td>12,809,713</td>
</tr>
</tbody>
</table>

Balance at the beginning of the financial year 12,809,713 12,340,288 12,809,713 12,340,288
Balance of share premium reserve - - 229,421 229,421
Shares issued 11,183,619 240,004 11,183,619 240,004
Share issue costs (472,288) - (472,288) -

The Company issued the following ordinary shares during the financial year:

(i) On 7 July 1999, the Company, in accordance with shareholders’ approval at the General Meeting held on 22 March 1999 allotted and issued 33,810,225 fully paid ordinary shares at 1.5 cents per share; 3,250,000 ordinary shares for nil consideration, and 46,583,333 Year 2002 Options as part of the terms of the convertible note announced on 4 January 1999.

(ii) On 21 December 1999, the company allotted 43,348,780 shares at 5 cents per share under the 1 for 2 non-renounceable rights issue pursuant to the Prospectus dated 9 November 1999 to raise $2,167,439. The proceeds of the issue allowed the company to retire short-term liabilities and to provide working capital, including funds for its marketing programme into the Year 2000.

(iii) On 24 January 2000, the company allotted 10,453,613 shares of between 5 cents and 30 cents per share in full and final satisfaction of $1,393,696 owed by the company to creditors, including a secured liability.

(iv) On 23 February 2000, the company allotted 1,538,462 shares at 13 cents per share to raise $200,000 for working capital.

(v) On 31 March 2000, the company successfully placed 28,000,000 shares at 25 cents per share to raise $7,000,000.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2000

18. SHARE OPTIONS

At 30 June 2000, options issued by the Company amounted to 107,583,333. During the financial year, the
Company issued under the terms and conditions of a convertible loan 46,583,333 Year 2002 options to
nominees of Buma Impex Pte Ltd in accordance with shareholders’ approval at the General Meeting held
on 22 March 1999.

The terms and conditions of the Options are:

- The Options are exercisable at 25 cents any time prior to 5.00 p.m. WST on 31 July 2002 (the expiry
date).

- The Options may be exercised at any time wholly or in part by delivering a duly completed form of
notice of exercise together with a cheque for the exercise price of 25 cents each to CMC Power
Systems Limited (CMC) at any time prior to the expiry date.

- Upon the valid exercise of the Options and payment of the exercise price, CMC will issue fully paid
ordinary CMC shares ranking pari passu with the then issued shares.

- Option holders will be permitted to participate in new issues of securities of CMC on the prior exercise
of the Options in which case the optionholder shall be afforded the period of at least ten (10) Business
Day notice prior to and inclusive of the books closing date (to determine entitlements to the issue), to
exercise the Options.

- In the event of any reconstruction, (including consolidation, subdivision, reduction or return) of the
issued capital of CMC:

  (a) the number of Options or the exercise price of the Options or both shall be
reconstructed (as appropriate) in a manner which will not result in any benefits being
conferred on optionholders which are not conferred on CMC shareholders; and

  (b) (subject to the provisions with respect to rounding of entitlements as sanctioned by
the meeting of CMC shareholders approving a reconstruction of capital) in all other
respects the terms for the exercise of the Options shall remain unchanged.

- The Options may be transferred in whole or part, subject to the provisions of the Constitution of CMC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2000

Consolidated  The Company
2000 1999 2000 1999
$  $ $  $

19. RESERVES
Option premium
120,000 120,000 120,000 120,000
Asset revaluation
337,872 337,872 337,872 337,872
457,872 457,872 457,872 457,872

20. DIRECTORS' AND EXECUTIVES' REMUNERATION

The number of directors of the Company including Executive directors, whose income from the Company or any related party falls within the following bands:

$0 - $9,999 3 4 3 4
$10,000 - $19,999 - - - -
$30,000 - $39,999 - 1 - 1
$60,000 - $69,999 1 - 1 -
$70,000 - $79,999 1 - 1 -
$90,000 - $109,999 - 1 - 1

Total income paid or payable, to all directors of the Company and controlled entities, including Executive directors, from the Company or any related party
139,900 145,200 139,900 145,000

21. SEGMENT INFORMATION

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. The consolidated entity operates predominantly in Australia.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2000

22. RELATED PARTIES

a) Directors

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


The aggregate amount of remuneration received or receivable by the Directors is disclosed in Note 20.

b) 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.

<table>
<thead>
<tr>
<th>Consolidated</th>
<th>Number held</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2000</td>
</tr>
<tr>
<td>CMC Power Systems Limited</td>
<td></td>
</tr>
<tr>
<td>Ordinary shares</td>
<td>3,331,000</td>
</tr>
<tr>
<td>Options over ordinary shares</td>
<td>2,900,000</td>
</tr>
</tbody>
</table>

c) Other transactions with the Company or its controlled entities

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit because of a contract made by the Company, its controlled entities or related bodies corporate with the Director or with a firm of which the Director is a member, or with an entity in which a Director has a substantial interest, other than as follows:

(i) A Director, Mr. G H Fountain, through a company in which he has a beneficial interest provided consulting services to the Company and its related entities for which fees have been accrued or paid of $62,900 (1999: $39,000). This arrangement is on normal commercial terms and conditions.

(ii) A Director, Mr. S P Teng, through a company in which he has a beneficial interest, provided consulting services to the Company and its related entities for which fees have been accrued or paid of $77,000 (1999: $103,000). This arrangement is on normal commercial terms and conditions.

(iii) A Director, Mr. G B Baker, through a company in which he has a beneficial interest, provided fund raising services and corporate financial services to the Company and its related entities for which fees have been accrued or paid of $140,000 (1999: Nil). This arrangement was on normal commercial terms and conditions.

These amounts have been included as directors' remuneration in Note 20.
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2000

22. RELATED PARTIES (Continued)

d) Wholly-owned group

Details of interests in wholly owned controlled entities are set out in Note 9. Amounts receivable from controlled entities are set out in Note 7.

During the year the Company did not charge for the provision of management services to a controlled entity.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>

23. NOTES TO THE STATEMENT OF CASH FLOWS

(i) Reconciliation of cash

For the purposes of the Statements of Cash Flows, cash includes cash at bank, net of outstanding bank overdrafts. 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 balance sheets as follows:

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>1999</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash at bank (bank overdraft)</td>
<td>6,702,709</td>
<td>(57,098)</td>
<td>6,702,709</td>
<td>(57,098)</td>
</tr>
</tbody>
</table>
### 23. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

(ii) Reconciliation of operating loss after income tax to net cash used in operating activities

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating loss after income tax</td>
<td>(1,450,155)</td>
<td>(881,369)</td>
<td>(1,450,155)</td>
<td>(888,111)</td>
</tr>
<tr>
<td>Add/(less) non cash items</td>
<td>11,338</td>
<td>7,217</td>
<td>11,338</td>
<td>7,217</td>
</tr>
<tr>
<td>Forgiveness of debt from creditors</td>
<td>(155,262)</td>
<td>-</td>
<td>(155,262)</td>
<td>-</td>
</tr>
<tr>
<td>Net cash used in operating activities before change in assets and liabilities</td>
<td>(1,594,079)</td>
<td>(874,152)</td>
<td>(1,594,079)</td>
<td>(880,894)</td>
</tr>
<tr>
<td>Change in assets and liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Increase)/decrease in receivables</td>
<td>(81,022)</td>
<td>118,122</td>
<td>(81,018)</td>
<td>117,928</td>
</tr>
<tr>
<td>Decrease in trade creditors and accruals</td>
<td>(324,902)</td>
<td>(206,857)</td>
<td>(300,534)</td>
<td>(206,860)</td>
</tr>
<tr>
<td>Increase/(decrease) in income taxes payable</td>
<td>24,368</td>
<td>2,387</td>
<td>-</td>
<td>9,383</td>
</tr>
<tr>
<td>Net cash used in operating activities</td>
<td>(1,975,635)</td>
<td>(960,500)</td>
<td>(1,975,631)</td>
<td>(960,443)</td>
</tr>
</tbody>
</table>

(iii) Non-cash financing activity

During the year, the company converted debt of $1,816,370 into ordinary shares.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2000

Consolidated
2000 1999
$  $

24. EARNINGS PER SHARE

Basic earnings/(loss) per share
(0.01)  (0.01)

Weighted average number of ordinary shares used in the
calculation of the basic earnings per share
142,914,409  67,479,138

Diluted earnings per share is not materially different from basic earnings per share.
107,583,333 Year 2002 options (refer Note 18) are not dilutive and have not been used in the
calculation of diluted earnings per share.

25. FINANCIAL INSTRUMENTS DISCLOSURE

The Company’s financial instruments and the policies associated with the risks of carrying these are
summarised below:

a) Interest rate risk

The Company’s financial assets and liabilities are subject to interest rate risk. These will fluctuate
in accordance with movements in the market interest rates. The Company’s exposure to interest
rate movements on those assets and liabilities at 30 June 2000 was as follows:

<table>
<thead>
<tr>
<th>2000</th>
<th>Note</th>
<th>Weighted average interest rate %</th>
<th>Floating Rate $</th>
<th>Fixed interest maturing in 1 year or less $</th>
<th>Fixed interest maturing in 1-5 years $</th>
<th>Non-interest bearing $</th>
<th>Total $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>5.9</td>
<td>202,709</td>
<td>6,500,000</td>
<td>-</td>
<td>-</td>
<td>85,057</td>
<td>6,702,709</td>
</tr>
<tr>
<td>Receivables</td>
<td>7</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>202,709</td>
<td>6,500,000</td>
<td>-</td>
<td>85,057</td>
<td></td>
<td>6,787,766</td>
</tr>
</tbody>
</table>

| Financial liabilities |      |                                  |                 |                                             |                                        |                        |         |
| Accounts payable | 13   | -                                | -               | -                                           | -                                      | 231,317                | 231,317 |
| Borrowings      | 14   | -                                | -               | -                                           | -                                      | -                      |         |
| Total           |      | -                                | -               | -                                           | 231,317                               |                        | 231,317 |

39
25. FINANCIAL INSTRUMENTS DISCLOSURE (continued)

a) Interest rate risk (Cont’d)

<table>
<thead>
<tr>
<th>Note</th>
<th>Weighted average interest rate %</th>
<th>Floating Rate $</th>
<th>Fixed interest maturing in 1 year or less $</th>
<th>Fixed interest maturing in 1-5 years $</th>
<th>Non-interest bearing $</th>
<th>Total $</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td>-</td>
<td></td>
<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Receivables</td>
<td>7</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4,035</td>
<td>4,035</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>-</td>
<td></td>
<td></td>
<td>4,035</td>
<td>4,035</td>
</tr>
<tr>
<td>Financial Liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>13</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,020,498</td>
</tr>
<tr>
<td>Borrowings</td>
<td>14</td>
<td>7.0</td>
<td>57,098</td>
<td>-</td>
<td>-</td>
<td>666,087</td>
</tr>
<tr>
<td>Total</td>
<td>57,098</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,686,585</td>
<td>2,743,683</td>
</tr>
</tbody>
</table>

b) Net fair values

For all financial assets and liabilities the fair net value approximates their carrying value. No financial assets and financial liabilities are readily traded on organised markets.

The aggregate net fair values and carrying amount of financial assets and financial liabilities are disclosed in the balance sheet and in the notes forming part of the financial statements.
26. EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to balance date, CMC Power Systems Limited (‘CMC’) invested $2 million in Powerline Systems Pty Ltd (‘Powerline’), in return for an 8.89% investment in the company. Powerline is a developer and manufacturer of energy generation systems. CMC signed an agreement with Powerline, which would see the development of CMC’s SyTech engine technology in order to power Powerline’s latest General Energy System (“GES”) co-generation units to supply electrical and heating needs for households and small businesses.

It is intended the two parties will sign an exclusive licensing agreement which will include a lump sum payment to CMC of $250,000 plus a royalty for use of the SyTech drive system. When achieved it will lead to the first commercialisation of CMC’s SyTech engine. The two parties will form a joint-venture to exploit the intellectual property from the development of the SyTech/GES drive system for the global market.

The financial effects of the above transaction have not been brought to account in the financial statements for the year ended 30 June 2000.
CMC POWER SYSTEMS LIMITED

DIRECTORS' DECLARATION

In the opinion of the directors of CMC Power Systems Limited:

(a) the financial statements and notes, set out on pages 18 to 41, are in accordance with the Corporations Law, including:

   (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2000 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 and the Corporations Regulations; 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.

Signed in accordance with a resolution of the directors:

Graham H Fountain
Director
Dated

Tony S P Teng
Director
Dated
INDEPENDENT AUDIT REPORT TO THE MEMBERS OF
CMC POWER SYSTEMS LIMITED

Scope

We have audited the financial report of CMC Power Systems Limited for the financial year ended 30 June 2000, consisting of the profit and loss statements, balance sheets, statements of cash flows, accompanying notes, and the directors’ declaration set out on pages 18 to 42. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at year’s end 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 included 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 and statutory requirements in Australia 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

The non-current assets of the Company and the consolidated entity at 30 June 2000 include an intangible asset, Patents and Industrial Property Rights, recorded at a carrying value of $6,894,400, being a Directors’ valuation at April 1985. The recoverability of the carrying value of the intangible asset is dependent on the consolidated entity’s ability to commercially exploit or sell the rights to the technology. At the date of this report the technology remains in the testing and evaluation stage.

As the recoverability of the carrying value of Patents and Industrial Property Rights is subject to future events which are uncertain, we are unable to conclude on the reasonableness of the carrying value of this asset. Should future commercialisation not proceed then a provision will need to be made to write down the carrying value of this asset to recoverable amount in accordance with AASB 1010 “Recoverable Amount of Non-Current Assets”.

Qualified audit opinion

In our opinion, except for the effect on the financial report of the matter referred to in the qualification paragraph, the financial report of CMC Power Systems Limited is in accordance with:

(a) the Corporations Law, including:

   (i) giving a true and fair view of the Company’s and the consolidated entity’s financial position as at 30 June 2000 and of their performance for the year ended on that date; and

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

(b) other mandatory professional reporting requirements.

KPMG

Trent van Veen
Partner

Sydney
October 2000
AUSTRALIAN STOCK EXCHANGE ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report.

SHAREHOLDINGS

Substantial shareholders

There were no substantial shareholders as at 30 September 2000.

Class of shares and voting rights

At 30 September 2000 there were 3,747 holders of the 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".

On market buy-back

There is no current on-market buy-back.

Distribution of shareholders (as at 30 September 2000)

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>NUMBER OF SHARES</th>
<th>NUMBER OF ORDINARY SHAREHOLDERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - 1,000</td>
<td></td>
<td>325</td>
</tr>
<tr>
<td>1,001 - 5,000</td>
<td></td>
<td>792</td>
</tr>
<tr>
<td>5,001 - 10,000</td>
<td></td>
<td>670</td>
</tr>
<tr>
<td>10,001 - 100,000</td>
<td></td>
<td>1,689</td>
</tr>
<tr>
<td>100,001 - and over</td>
<td></td>
<td>271</td>
</tr>
</tbody>
</table>

Total shareholders 3,747

The number of shareholders holding less than a marketable parcel at 30 September 2000 was 821.
### TWENTY LARGEST SHAREHOLDERS  (as at 30 September 2000)

<table>
<thead>
<tr>
<th>Name</th>
<th>Number of ordinary shares held</th>
</tr>
</thead>
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<td>Saik Hock Tan</td>
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</table>

**Total** 51,961,649

The twenty largest shareholders hold 26.86% of the ordinary share capital of the Company.