

**TO: COMPANY ANNOUNCEMENTS OFFICE  
ASX LIMITED**

**DATE: 29 July 2014**

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### **June 2014 Quarterly Report**

The Board of Cardia Bioplastics Limited (ASX: CNN) presents its Quarterly Activities Report and Appendix 4C Quarterly Cash Flow Statement for the consolidated entity consisting of Cardia Bioplastics Limited ("Cardia" or "the Company") and the entities it controlled ("the Group") for the quarter ended 30 June 2014.

### **Overview**

The Cardia Board significantly progressed with the implementation of its business strategy to establish a finished products division with own dedicated resources and manufacturing capability during the quarter. The successful completion of a \$2.7M capital raising provided the financial foundation for the operational restructure. Finished products sales provide the strategic benefit of end-user engagement and value capture for Cardia's proprietary bioplastics technology. Cardia now offers proven sustainable product and packaging solutions made from Biohybrid™ or certified compostable resins. Cardia's finished products customers embrace sustainable packaging delivered through Cardia's cost effective and dedicated supply chain.

Revenues for the financial year FY2013/14 were with \$5.04M similar to revenues for the FY2012/13 of \$5.05M. A key achievement was the delivery of 27.5% revenue growth from its main operations (Bioplastics business) to \$4.04M for FY2013/14, compared to \$3.17M for the FY2012/13.

This improvement was delivered under challenging conditions of relocation to a new factory in Nanjing, China, installation of three new production lines, and expansion of and change within its production labour force.

With the purchase of six additional film extrusion and bag making lines due for delivery by the end of the September quarter and with the current growing pipeline of sales orders, the outlook for FY2014/15 is promising.

### **Highlights of the June 2014 Quarter**

- Consolidated cash position was \$2.70M as at 30 June 2014.
- Net Operating Cash (Out) Flow ("NOCF") for the June 2014 quarter was \$0.47M compared to \$0.81M for the March 2014 quarter.
- Sales Revenues for the June 2014 quarter were \$1.74M, an increase of 48.5% compared to sales revenues for the March 2014 quarter (\$1.17M), and a decrease of 3.8% compared to sales revenues for the June 2013 quarter (\$1.81M). However, sales from main operations during the quarter improved by 16.5% to \$1.18M compared to \$1.01M in June 2013 quarter.
- Revenues for the financial year FY2013/14 were \$5.04M compared to revenues for the FY2012/13 of \$5.05M. Revenues from main operations (Bioplastics business) for the FY2013/14 were \$4.04M, achieving an increase of 27.5% compared to \$3.17M for the FY2012/13. Revenues of the Wholesale Trading Business were \$0.99M for FY2013/14, a decrease of 47.2% compared to sales revenues for the FY2012/13 (\$1.88M).
- Several sales contracts were signed during the June 2014 quarter with initial orders received for delivery in the quarter and increasing in the September 2014 quarter. Additional annual sales revenues of \$2.50M are expected from these new sales contracts as customers ramp up their product off takes to their full requirement.

## **Sales Segment Summary**

### **Carrier Bags**

- Cardia won increased sales orders in the Brazilian retail market at the APAS 2014 Fair in São Paulo, Brazil. The annual supply requirement of these retailers is forecast to be a minimum of \$1M with supply commencement scheduled for July 2014.

### **Films & Packaging**

- A leading American manufacturer of personal hygiene and diaper products doubled orders of Cardia Biohybrid™ film to \$1M per annum forecast. The manufacturer is expanding the use of Cardia Biohybrid™ film across different product lines with further potential to increase its use.
- Cardia executed a supply agreement with EcNow Tech of USA. Cardia delivered initial orders with annual supply projections of \$400K for its compostable resin used in EcNow Tech's production of disposable compostable cutlery and ice cream sticks.

### **Waste Management Products**

- Sales of organic waste management products business in China was in line with expectations. Shanghai-Pudong was supplied under their \$1.2M annual contract. Cardia Bioplastics organic waste diversion program extended to China's Qixia District with annual orders for the program forecast to reach \$400K. City Districts of Hangzhou successfully completed their trial regime and purchased \$223K worth of kitchen waste bags from Cardia.
- Cardia partnered with LifeCycle Products to increase sales of compostable and Biohybrid™ waste management products in the UK market. Initial orders of \$65K for Cardia Compostable products have been placed by LifeCycle Products.
- Natureworks Packaging selected Cardia Bioplastics as partner to develop bag and waste management products for the Australian and international markets. Natureworks placed orders for \$200K of Cardia Bioplastics bag and waste management products during the last 12 months and sold them through their extensive sales force.
- Cardia launched its new Compostable and Biohybrid™ dog waste bag ranges at Interzoo 2014 in Nuremberg, Germany.

## **Manufacturing and Technology Summary**

- Cardia Bioplastics successfully completed the relocation to a new purpose built factory in Nanjing, China and installed three new production lines that are now operating at capacity.
- The Cardia Board approved the purchase of six additional film extrusion and bag making lines to meet Cardia's current order pipeline.

### **Cash at Bank on 30 June 2014**

- Consolidated cash position was \$2.70M as at 30 June 2014. This cash balance included funds of \$2.70M raised (before costs) from share issues during the quarter.
- Net Operating Cash (Out) Flow for the June 2014 quarter was \$0.47M compared to \$0.81M for the March 2014 quarter.

The Group's collections from sales [Item 1.1 of Appendix-4C] were largely as per the payment terms negotiated.

Cash outflows on other working capital [Item 1.2(e) of Appendix-4C] were commensurate with sales, manufacturing, trading and other operational activities during the quarter.

In June 2014, the Company has received Research & Development tax concession refund of \$0.27M for the financial year ending 30th June 2013. This tax refund receipt has improved NOCF for the June 2014 quarter.

### **Capital Raising**

Cardia successfully completed capital raising of \$2.7M in April 2014 through Non-Renounceable Rights Issue Offer.

- On 6th March 2014, the Company lodged a Non-Renounceable Rights Issue Offer Prospectus with ASIC to raise up to \$2.70M. The Rights Issue Offer entitled shareholders to subscribe for one new share for every three shares held in Cardia at an issue price of \$0.003 (0.3 cents) each with one free attaching option (exercise price of \$0.006 each with an expiry date of 31 December 2014) for every three new shares subscribed for.

In April 2014, the Company successfully completed capital raising of \$2.7M pursuant to the Rights Issue Offer Prospectus.

- Funds raised are being used for general working capital requirements of the Company and other purposes as were disclosed in Rights Issue Offer Prospectus.

100,000,000 unlisted options exercisable at \$0.035 (3.5 cents) each, expired on 15 July 2014.

### **Revenues and Sales in June 2014 quarter**

- Sales Revenues for the June 2014 quarter were \$1.74M, an increase of 48.5% compared to sales revenues for the March 2014 quarter (\$1.17M), and a decrease of 3.8% compared to sales revenues for the June 2013 quarter (\$1.81M). Revenues were made up of sales from Cardia Bioplastics resins and finished products to its global carrier bag, films & packaging and waste management business market segments, and from its wholesale trading business.
- Revenues for the financial year FY2013/14 were \$5.04M compared to revenues for the FY2012/13 of \$5.05M. Revenues from main operations (Bioplastics business) for the FY2013/14 were \$4.04M, an increase of 27.5% compared to \$3.17M for the FY2012/13. Revenues of the Wholesale Trading Business were \$0.99M for FY2013/14, a decrease of 47.2% compared to sales revenues for the FY2012/13 (\$1.88M).

### **General review of sales and sales developments by business segment**

#### **Carrier Bags**

- Several Brazilian States have implemented bans of standard plastic carrier bags and are currently formalising legislation. Carrier bag sales to retailers continued in Brazil during the quarter. These included sales to high profile Brazilian retailers Ricoy Supermercados and Drogeria Araujo under their new supply contracts for Biohybrid™ bags. Annual orders of these two retailers are expected to reach \$1.2M with the opportunity to grow the business across the larger retailing groups.
- Cardia won increased sales orders in the Brazilian retail market at the leading APAS 2014 Retail Fair in São Paulo, Brazil. Several Brazilian retailers ordered a total of \$250K worth of Cardia Bioplastics bags for validating Cardia's product quality. The annual supply requirement of these retailers is forecast to be a minimum of \$1M with supply commencement scheduled for July 2014.
- Cardia Bioplastics Brazil has set up supply of bags to retailers through its outsourced production at leading Brazilian film and bag makers. Cardia's Brazilian bag sales are expected to accelerate.

## **Films & Packaging**

- Cardia delivered Biohybrid™ film sales to its long-term hygiene products customer in North America. The customer doubled orders of Cardia Biohybrid™ film to \$1M per annum forecast as it expands use of Cardia products across different product lines with further potential to increase its use.
- Cardia delivered sales of compostable films to US Protective Packaging Leader. They progressed with testing their compostable protective packaging products with select international express logistics companies during the quarter and increased their orders to supply these companies during their in-market validation phase.
- Cardia executed a supply agreement with EcNow Tech of USA. Cardia delivered initial orders of \$70K with annual supply projections of \$400K for its compostable resin used in EcNow Tech's production of disposable compostable cutlery and ice cream sticks.
- Cardia Bioplastics developed innovative Biohybrid™ films technology for bag-in-bag water packaging. Cardia delivered initial sales of \$80K with Biohybrid™ bag-in-bag packaging films. As Cardia's water distribution customers have won initial bagged water customers and have committed to installation of additional production lines, it is expected that this business will significantly grow.
- Cardia supplied compostable films and packaging to Australian Ecoriginals to produce their Eco Baby Nappies that are chiefly made from plant-based and compostable materials. The Eco Baby Nappies were launched in the Australian market in the March quarter and created global industry interest with several other hygiene companies now testing both Cardia Compostable and Biohybrid™ films in their specific product applications.

## **Waste Management Products**

- Cardia Bioplastics has established itself as a provider of organic waste management products and solutions to the government and council sector, commercial and industrial, as well as the retail market. Diversion of organic waste from landfill to composting is promoting the use of certified compostable waste bags. Reducing the carbon footprint of waste management products encourages the use of Biohybrid™ technology.
- Sales of organic waste management products business in China was in line with expectations. Shanghai-Pudong was supplied under their \$1.2M annual contract. Cardia Bioplastics organic waste diversion program extended to China's Qixia District with annual orders for the program forecast to reach \$400K. City Districts of Hangzhou successfully completed their trial regime during the quarter and purchased \$223K worth of kitchen waste bags from Cardia.
- Cardia partnered with LifeCycle Products to increase sales of compostable and Biohybrid™ bag and waste management products in the UK market. Initial orders of \$65K for Cardia Compostable products have been placed by LifeCycle Products for its market launch.
- Natureworks Packaging selected Cardia Bioplastics as partner to develop bag and waste management products for the Australian and international markets. Natureworks placed orders for \$200K of Cardia Bioplastics bag and waste management products during the last 12 months and sold them through their extensive sales force.
- New opportunities are being developed in Australia, USA, Asia and Europe with initial orders of \$70K for both compostable and Biohybrid™ waste management products received from new customers in Australia and Asia.
- Cardia launched its new Compostable and Biohybrid™ dog waste bag ranges at Interzoo 2014, the premier exhibition for the Pet Supplies Industry, and received sales orders that will underpin its film and bag making expansion at its Nanjing factory.

## **Wholesale materials trading business**

- Cardia delivered sales of \$560K from its wholesale raw material trading business during the June 2014 quarter.

## **Manufacturing and Technology Summary**

- Cardia Bioplastics successfully completed the relocation to a new purpose-built factory in Nanjing, China and installed three new production lines that are now operating at capacity.
- The Cardia Board approved the purchase of six additional film extrusion and bag making lines to meet Cardia's current order pipeline. Installation of equipment and commencement of production is scheduled for the September quarter. Each production line is capable of producing an additional 3M bags per month with sales orders received at the Interzoo 2014 trade fair and China government orders underpinning the new film and bag making expansion.
- The increased finished products capacity will enhance sales margins, as Cardia products will be made in-house. Existing capacity for resin production meets business requirements.

## **Sales and Marketing Summary**

- In line with Cardia Bioplastics' strategy of expanding its finished products division, Cardia presented its bag and product offering at three industry trade fairs during the June quarter. APAS 2014 Retail Fair in São Paulo, Brazil, Interzoo 2014 Pet Supplies Exhibition in Nuremberg, Germany and Waste Conference in Coffs Harbour, Australia.
- Cardia launched its new Compostable and Biohybrid™ dog and organic waste bag ranges in Cardia's new design and supported with tailored marketing.

**Appendix 4C follows.**

**Richard Tegoni**  
**Chairman**

**Please direct any enquires to**

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## **About Cardia Bioplastics**

Cardia Bioplastics Limited (ASX CODE: CNN) develops, manufactures and markets its patented renewable resource based materials and finished products derived from Cardia's proprietary technology for the global packaging and plastic products industries. The company holds a strong patent portfolio and its growth is fuelled by the global trend towards sustainable packaging. Established in Australia in 2002 as Biograde, the company Headquarters and Global Applications Development Centre is in Melbourne, Australia. The Product Development Centre and manufacturing plant for resins and finished goods is in Nanjing, China. There are Cardia Bioplastics offices in Australia, China, USA, Brazil and Malaysia, and a network of leading distributors across the Americas, Asia and Europe. Visit [www.cardiabioplastics.com](http://www.cardiabioplastics.com)

## Appendix 4C

### Quarterly report for entities admitted on the basis of commitments

Introduced 31/3/2000. Amended 30/9/2001

Name of entity

Cardia Bioplastics Ltd

ABN

89 064 755 237

Quarter ended ("current quarter")

30 June 2014

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from customers	1,644	5,204
1.2 Payments for		
(a) staff costs	(353)	(1,210)
(b) advertising and marketing	(61)	(119)
(c) research and development	(138)	(476)
(d) leased assets	(142)	(319)
(e) other working capital	(1,698)	(5,897)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	11	15
1.5 Interest and other costs of finance paid	-	(8)
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	270	270
<b>Net operating cash flows</b>	<b>(467)</b>	<b>(2,540)</b>
1.8 Net operating cash flows (carried forward)	<b>(467)</b>	<b>(2,540)</b>
<b>Cash flows related to investing activities</b>		
1.9 Payment for acquisition of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	(115)	(176)
(e) other non-current assets	-	-
1.10 Proceeds from disposal of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	35
(c) intellectual property	-	-
(d) physical non-current assets	-	-
(e) other non-current assets	-	-
1.11 Loans to other entities	-	-
1.12 Loans repaid by other entities	-	-
1.13 Other investing activities	-	-
<b>Net investing cash flows</b>	<b>(115)</b>	<b>(141)</b>
<b>1.14 Total operating and investing cash flows</b>	<b>(582)</b>	<b>(2,681)</b>

	<b>Cash flows related to financing activities</b>		
1.15	Proceeds from issues of shares, options, etc.	2,508	4,214
1.16	Proceeds from sale of forfeited shares		-
1.17	Proceeds from borrowings	-	110
1.18	Repayment of borrowings	-	(107)
1.19	Dividends paid	-	-
1.20	Other (provide details if material)	-	-
	<b>Net financing cash flows</b>	<b>2,508</b>	<b>4,217</b>
	<b>Net increase (decrease) in cash held</b>	<b>1,926</b>	<b>1,536</b>
1.21	Cash at beginning of quarter/year to date	788	1,231
1.22	Exchange rate adjustments to item 1.21	(16)	(69)
1.23	<b>Cash at end of quarter</b>	<b>2,698</b>	<b>2,698</b>

**Notes:**

**Note to 1.7**

The amount of \$270,277 was Research & Development Tax Rebate received for the financial year ending 30<sup>th</sup> June 2013.

**Payments to directors of the entity and associates of the directors**

**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	<b>\$81</b>
1.25	Aggregate amount of loans to the parties included in item 1.11	-

1.26 Explanation necessary for an understanding of the transactions

**Item 1.24**

Dr F Glatz was paid a salary of \$44,350 inclusive of superannuation for the quarter  
Mr Chen Yi was paid a salary of \$20,427 inclusive of society insurance premium for the quarter.

Directors' fees totalling \$10,000 (Ex GST) were paid during the quarter as detailed below:

- COB Pty Ltd (a company controlled by Mr. Richard Tegoni)- \$3,750 (Ex GST)
- Bendel Partners Pty Ltd (a company controlled by Mr. Steve Bendel)-\$3,125 (Ex GST)
- GM Legal & Corporate Advisory (a company controlled by Mr. Gideon Meltzer-\$3,125 (Ex GST)

During the Quarter, amount of \$5,850 (Ex GST) was paid to GM Legal & Corporate Advisory (a company controlled by Mr. Gideon Meltzer for providing consultancy services to the Company.

## Non-cash financing and investing activities

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

- 2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

n/a
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## Financing facilities available

Add notes as necessary for an understanding of the position. (See AASB 1026 paragraph 12.2).

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	n/a	n/a
3.2 Credit standby arrangements	n/a	n/a

## Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
4.1 Cash on hand and at bank	2,092	788
4.2 Deposits at call	-	-
4.3 Bank overdraft	-	-
4.4 Term Deposits	500	-
4.5 Deposits against Letter of Credits	-	-
4.6 Funds in Transit	106	-
<b>Total: cash at end of quarter (item 1.23)</b>	<b>2,698</b>	<b>788</b>



## Acquisitions and disposals of business entities

	Acquisitions (Item 1.9(a))	Disposals (Item 1.10(a))
5.1 Name of entity	-	-
5.2 Place of incorporation or registration	-	-
5.3 Consideration for acquisition or disposal	-	-
5.4 Total net assets	-	-
5.5 Nature of business	-	-

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here: ..... Date: **29 July 2014.**

(Company Secretary)

Print name: Rekha Bhambhani

## Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The definitions in, and provisions of, *AASB 1026: Statement of Cash Flows* apply to this report except for the paragraphs of the Standard set out below.
  - 6.2 - reconciliation of cash flows arising from operating activities to operating profit or loss
  - 9.2 - itemised disclosure relating to acquisitions
  - 9.4 - itemised disclosure relating to disposals
  - 12.1(a) - policy for classification of cash items
  - 12.3 - disclosure of restrictions on use of cash
  - 13.1 - comparative information
3. **Accounting Standards.** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.