

ASX CODE: CNN

**TO: COMPANY ANNOUNCEMENTS OFFICE
ASX LIMITED**

DATE: 29th August 2014

PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 30th JUNE 2014

Attached is the Preliminary Final Report (Appendix 4E) of Cardia Bioplastics Limited and its Controlled Entities pursuant to Listing Rule 4.3B.

REKHA BHAMBHANI
Company Secretary

APPENDIX 4E

PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 30 JUNE 2014

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PRELIMINARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Revenue from ordinary activities	Down	8.11%	to	5,360,884
Loss from ordinary activities after tax attributable to members	Down	14.71%	to	(2,607,805)
Net Loss for the year attributable to members	Down	14.71%	to	(2,607,805)
Dividends/Distributions				
No interim dividend was paid during the year and it is not proposed to pay a final dividend for the year. A dividend policy will be established when the Company achieves a regular profitable operation.				

Brief Explanation of the above figures

Revenue

Revenue for the year has decreased by **8.11%** to **\$5,360,884** as compared to the revenue of \$5,833,739 last year.

The primary reason for this decrease in revenue was early receipt of R&D tax rebate in June last year (**\$396K**) that normally would have been received and recognised as revenue in the current year.

Although Revenue from Sales for the year of \$5.02M was consistent with Sales Revenue of the last year- \$5.05M, a key achievement was the delivery of 27% revenue growth from its main operations (Bioplastics business) to \$4.02M for the year, compared to \$3.17M last year.

Loss Position

The Company's loss from its operating activities for the year was **\$2,515,976**, an increase of **55.20% or \$894,881** compared to last year (\$1,621,095).

Current year's increase in loss was primarily due to the following reasons:

- Shift in timing of R&D tax rebate receipt of **\$396K**, as explained above.
- Once Off China factory moving costs of approx- **\$200K**
- Costs incurred with the implementation of the Company's business strategy to establish a finished products division with own dedicated resources.
- Overall increase in China operating costs due to weak Australian Dollar.

In spite of cost increases explained above and recognition of loss of \$91,753 on sale of Company's equity investment in P-Fuel Limited, , the Company's consolidated loss position for the year has improved by **14.71%** or **\$449,868** compared to a loss of \$3,057,673 last year.

The main reason for decrease in the Consolidated Net Loss is attributable to recognition of impairment loss of \$1,439,045 on its intangible assets (Goodwill) last year, no such impairment has been recorded this year.

PRELIMINARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For The Year Ended 30 June 2014

	Consolidated Group	
	2014	2013
	\$	\$
Sales from main operations	4,023,467	3,172,480
Wholesale material trading sales	1,000,024	1,878,095
	5,023,491	5,050,575
Cost of Sales (main operations)	(3,476,206)	(2,699,846)
Cost of Purchase (Wholesale material)	(993,072)	(1,805,075)
	(4,469,278)	(4,504,921)
Gross Profit	554,213	545,654
Other Income	337,393	783,164
Administrative Expenses	(850,234)	(600,783)
Employment Benefits	(1,042,651)	(1,006,032)
Marketing & Distribution Expenses	(416,722)	(312,540)
Research & Development Expenses & Patent Costs	(750,741)	(873,249)
Depreciation & Amortisation	(108,996)	(136,912)
Borrowing Costs	(8,086)	-
Net Foreign Exchange (Losses) /Gains	(23,740)	166,457
Other Expenses	(206,412)	(89,913)
Impairment –Trade Receivables	-	(96,941)
Results from operating activities	(2,515,976)	(1,621,095)
Loss on sale of Financial Assets	(91,753)	-
Impairment –Intangible Assets	-	(1,439,045)
Loss before income tax	(2,607,729)	(3,060,140)
Income Tax Expense	-	-
Loss for the period after income tax	(2,607,729)	(3,060,140)
Other comprehensive income		
Foreign currency translation differences of foreign operations	(42,841)	(40,071)
Net change in fair value of available for sale financial assets	187,800	131,460
Income tax on other comprehensive income	-	-
Total comprehensive income for the period	(2,462,770)	(2,968,751)
(Loss)/Profit attributable to:		
Members of the Company	(2,607,805)	(3,057,673)
Non-Controlling Interest	76	(2,467)
Loss for the year after income tax	(2,607,729)	(3,060,140)

PRELIMINARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2014	2013
	\$	\$
Total comprehensive income attributable to :		
Members of the Company	(2,462,846)	(2,966,284)
Non-Controlling Interest	76	(2,467)
Total comprehensive income for the period	(2,462,770)	(2,968,751)
Earnings per share		
-Basic and Diluted earnings per share (cents per share)	(0.09)	(0.17)

PRELIMINARY CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2014

	Notes	2014 \$	2013 \$
CURRENT ASSETS			
Cash and cash equivalents	3	2,697,515	1,231,477
Trade and other receivables		1,749,523	1,169,390
Inventories		757,084	1,449,010
TOTAL CURRENT ASSETS		5,204,122	3,849,877
NON-CURRENT ASSETS			
Financial assets	4	563,400	502,353
Plant and equipment		593,230	628,801
Intangible Assets	5	5,126,905	5,126,905
TOTAL NON-CURRENT ASSETS		6,283,535	6,258,059
TOTAL ASSETS		11,487,657	10,107,936
CURRENT LIABILITIES			
Trade and other payables		1,370,971	1,788,975
Short-term provisions		61,586	56,113
TOTAL CURRENT LIABILITIES		1,432,557	1,845,088
NON CURRENT LIABILITIES			
Long-term provisions		46,856	33,763
TOTAL NON CURRENT LIABILITIES		46,856	33,763
TOTAL LIABILITIES		1,479,413	1,878,851
NET ASSETS		10,008,244	8,229,085
EQUITY			
Issued capital		46,959,841	42,717,912
Reserves		(275,121)	(420,080)
Accumulated Losses		(36,714,535)	(34,106,730)
Parent interest		9,970,185	8,191,102
Non-Controlling Interest		38,059	37,983
TOTAL EQUITY		10,008,244	8,229,085

PRELIMINARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued Share Capital	Accumulated Losses	Foreign Currency Translation Reserve	Revaluation Reserve	Parent Entity Interest	Non- Controlling Interests	Total Equity
	\$	\$	\$	\$	\$	\$	\$
Balance at 1.7.2012	41,468,763	(31,049,057)	(511,469)	-	9,908,237	40,450	9,948,687
Loss for the Year	-	(3,057,673)	-		(3,057,673)	(2,467)	(3,060,140)
Other Comprehensive income for the year	-	-	(40,071)	131,460	91,389	-	91,389
Total comprehensive income for the year	-	(3,057,673)	(40,071)	131,460	(2,966,284)	(2,467)	(2,968,751)
Transactions with owners in their capacity as owners							
Shares/Options issued during the year	1,299,000	-	-	-	1,299,000	-	1,299,000
Cost of Capital	(49,851)	-	-	-	(49,851)	-	(49,851)
Balance at 30.06.2013	42,717,912	(34,106,730)	(551,540)	131,460	8,191,102	37,983	8,229,085
Balance at 1.7.2013	42,717,912	(34,106,730)	(551,540)	131,460	8,191,102	37,983	8,229,085
Loss for the Year	-	(2,607,805)			(2,607,805)	76	(2,607,729)
Other Comprehensive income for the year	-	-	(42,841)	187,800	144,959	-	144,959
Total comprehensive income for the year	-	(2,607,805)	(42,841)	187,800	144,959	38,059	5,766,315
Transactions with owners in their capacity as owners							
Shares/Options issued during the year	4,483,708	-	-	-	4,483,708	-	4,483,708
Cost of Capital	(241,779)	-	-	-	(241,779)	-	(241,779)
Balance at 30.06.2014	46,959,841	(36,714,535)	(594,381)	319,260	9,970,185	38,059	10,008,244

PRELIMINARY CONSOLIDATED CASH FLOWS STATEMENT

	Notes	2014 \$	2013 \$
Cash Flows from Operating Activities			
Receipts from customers (inclusive of goods and services tax)		4,797,568	4,699,375
Payments to suppliers and employees (inclusive of goods and services tax)		(7,747,624)	(6,905,106)
Interest		19,529	10,794
Borrowing Costs		(8,086)	-
Research & Development Tax Credits received		270,277	770,710
Net Cash Outflow from Operating Activities	7	(2,668,336)	(1,424,227)
Cash Flows from Investing Activities			
Purchase of plant and equipment		(133,845)	(10,981)
Proceeds from sale of financial assets		35,000	-
Net Cash Outflow from Investing Activities		(98,845)	(10,981)
Cash Flows from Financing Activities			
Proceeds from Borrowings		110,075	-
Repayment of Borrowings		(107,013)	-
Proceeds from issues of ordinary shares and options		4,483,708	1,299,000
Payment of share issue costs		(241,779)	(49,851)
Net Cash Inflow from Financing Activities		4,244,991	1,249,149
Net Increase/(Decrease) in Cash Held		1,477,810	(186,059)
Cash at the Beginning of the Financial Year		1,231,477	1,362,618
Effect of exchange rates on cash holdings in foreign currencies		(11,772)	54,918
Cash at the End of the Financial Year	3	2,697,515	1,231,477

NOTES TO THE PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS

1. Revenue from Ordinary Activities

	2014	2013
	\$	\$
Revenue from continuing operations		
Sales from main operations	4,023,467	3,172,480
Wholesale material trading sales	1,000,024	1,878,095
Total	5,023,491	5,050,575
Other Income		
Interest	19,529	10,794
Research & Development Tax Credits received	270,277	770,710
Other Income	47,587	1,660
Total	337,393	783,164
Revenue from continuing operations	5,360,884	5,833,739

2. Comparison of Half –Year Results

	2014	2013
	\$	\$
Consolidated loss from continuing operations after tax attributable to members reported for the first half-yearly report	(1,339,857)	(1,016,837)
Consolidated loss from continuing operations after tax attributable to members for the second half-year	(1,267,872)	(2,040,836)
	(2,607,729)	(3,057,673)

3. Reconciliation of Cash

	2014	2013
	\$	\$
Cash at bank and on hand	2,697,515	1,231,477
	2,697,515	1,231,477

4. Financial Assets

	2014	2013
	\$	\$
Non-Current		
Available –for-sale financial assets		
Unlisted Investments, at fair value		
Opening Balance carried forward	375,600	244,140
Add : Revaluation Reserve	187,800	131,460
(a)	563,400	375,600
Other Investments		
Unlisted Investments ,at cost	-	210,000
Less : Impairment	-	(83,247)
(b)	-	126,753
	563,400	502,353

NOTES TO THE PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS

- (a) Non-current- Available for sale financial assets consist of 18,780,000 ordinary shares in Bioglobal Limited ("Bioglobal"). As at 30 June 2014, these assets have been valued at 3 cents per share based on the offer price for the last capital raising by Bioglobal that occurred in December 2013.
- (b) This financial asset consisted of 5,250,000 ordinary shares in P-Fuel Limited. In November 2013, Cardia sold all of its equity interest in P-Fuel Limited for \$35,000 resulting in a realised loss of \$91,753 to its book value.
- (c) All of the group's financial assets are classified as Tier 3 assets. This assessment has remained unchanged for the year ended 30 June 2014.

5. Intangible Assets

	Economic Entity	
	2014	2013
	\$	\$
Goodwill		
Cost	8,112,783	8,112,783
Accumulated impaired losses	(2,985,878)	(2,985,878)
Net carrying value	5,126,905	5,126,905

Impairment Disclosures

All Goodwill is allocated to the Company's distribution division, being a cash generating unit.

The recoverable amount of the cash-generating unit is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections for the next five years. The cash flows are discounted using estimated discount rate based on Capital Asset Pricing Model adjusted to incorporate risks associated with a particular segment.

Management has based the value-in-use calculations on three year budget forecasts of Bioplastics business. Revenue has been projected on the below mentioned assumptions. Costs are calculated taking into account historical gross margins as well as estimated weighted inflation rates over the period which is consistent with inflation rates applicable to the locations in which the unit operates. Discount rates are pre-tax and reflect risks associated with the distribution division.

The following assumptions were used in the value-in-use-calculations:

- a. Revenue is premised on a "zero based budget" approach whereby each customer, or potential customer, has been specifically assessed having regard to current indications of demand, customer contacts or as assessed by the relevant sales manager.

Long term contracts typically include expenditure "rise and fall" clauses. Accordingly, Revenue is forecast to alter in line with relevant changes to the Company's direct manufacturing costs.

- b. Projected cash flows have been discounted using discount rate of 16.5%. (2013: 16.5%)

NOTES TO THE PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS

- c. Gross profit margins are forecast to be in a range of 20%-45% dependent upon product and each geographic region. (2013: 20%-45%)
- d. The annual growth rate of 2% has been estimated in the calculation of terminal value.

Based on the above assumptions, the recoverable amount of the cash generating unit has been determined to exceed its carrying amount as at 30 June 2014 and accordingly; no impairment loss has been recognised.

6. Reconciliation of Loss After Income Tax to Net Cash Flows from Operating Activities

	2014	2013
	\$	\$
Operating Loss after income tax	(2,607,729)	(3,060,140)
Depreciation & Amortisation	108,996	136,912
Depreciation included in Costs of goods sold	50,562	6,317
Foreign Currency translation differences	(24,273)	(44,393)
Loss on Sale of Financial Assets	91,753	-
Impairment –Intangible Assets	-	1,439,045
Changes in operating assets and liabilities		
(Increase)/decrease in receivables	(580,133)	(335,298)
(Increase)/decrease in other operating assets	691,926	(129,584)
Increase/(decrease) in creditors	(435,125)	573,090
Increase/(decrease) in provisions and payables	35,687	(10,176)
Net cash outflow from operating activities	<u>(2,668,336)</u>	<u>(1,424,227)</u>

7. Events Occurring After Reporting Date

- 100,000,000 unlisted options exercisable at \$0.0035 (0.35 cents) each, expired on 15 July 2014.
- As announced to the market in August 2014, the Company has decided to set up its own film and bag manufacturing plant in São Paulo, Brazil. New purpose-built facilities have been leased and production commencement is scheduled for September 2014. The production machinery costing A\$750,000 is funded using vendor finance over a twelve months period.
The new factory is expected to deliver a production capacity of 500 million retail carry bags per year. This capacity is over four times greater than that of the current Cardia Bioplastics manufacturing plant in Nanjing, China.

8. Issued and Listed Securities

- Following shareholders' approval in the General Meeting that was held on 10 July 2013, 100 million free attaching new options were issued in July 2013 to the investors who had participated in share placement that took place in May 2013. New Options have an exercise price of 0.35 cents and an expiry date of 12 months from date of issue (15 July 2014). New Options issued are unlisted securities.
- On 25 September 2013, the Company has raised further \$200,000 by issue of 80 million ordinary shares at an issue price of 0.25cents (\$0.0025) per share. Ordinary shares were issued to professional and sophisticated investors under the approval given by shareholders at the general meeting held on 10 July 2013.
- In October 2013, the Company raised \$600K via share placement offer to professional and sophisticated investors at an issue price of A\$0.0025 per share. Of the total amount raised, \$400,000 was placed under the approval given by shareholders at a general meeting held on 10 July 2013 and

NOTES TO THE PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS

balance \$200,000 was placed under the Company's 10% placement capacity pursuant to Listing Rule 7.1A.

- In November 2013, the Company further raised \$629K via share placement offer to professional and sophisticated investors at an issue price of A\$0.003 per share under the Company's 15% placement capacity pursuant to Listing Rule 7.1. The placement was managed by Patersons Securities Limited. Funds raised are being used for general working capital requirements of the Company.
- On 6th March 2014, the Company lodged a Non-Renounceable Rights Issue Offer Prospectus with ASIC to raise up to \$2.7Million. 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.
- At the same time in March 2014, the Company extended the same offer to professional and sophisticated investors and raised \$355K (before costs) via share placement. The Placement was completed under the Company's 15% placement capacity pursuant to Listing Rule 7.1.
- On 25 March 2014, the Company has issued 7,000 ordinary shares as a result of the exercise of a similar number of options expiring on 30 June 2015.

The total numbers of securities on issue as at date of this report.

Ordinary Fully Paid Shares	3,714,432,502
Options expiring 30 June 2015 (Exercise Price 1.5 cents each)	221,278,642
Listed Options expiring 31 December 2014 (Exercise Price 0.006cents each)	339,444,317

The Company had 2,166,557,931 fully paid ordinary shares and 221,285,642 listed options on issue at 30 June 2013.

9. NTA Backing

	2014	2013
Net tangible asset backing per ordinary share (cents)	<u>0.1314</u>	<u>0.1432</u>

10. Operating segments

Business Activities

The consolidated entity continued to operate under a five business activities model namely:

- **Environmental Technology**
- **Biotechnology Medical**
- **Biotechnology Agricultural**
- **Natural Pharmaceuticals**
- **Mineral Exploration**

Cardia Bioplastics (Australia) Pty Ltd was acquired by Cardia on 6th March 2009. Cardia Bioplastics (Australia) Pty Ltd's operations are in Bioplastics and is classified under "Environmental Technology" business segment of the Group. Bioplastics is the current focus of business, and the Group has identified its operating segments to accord with that business.

Segment Information

Operating segments are premised on the internal reports that are reviewed and used by the Board of Directors in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of product category and service offerings as the diversification of the Group's operations inherently have different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

The Company's portfolio of investments and interests held or acquired under five activities business model of the Group are classified under "Corporate Division" operating segment of the entity.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- the products sold and/or services provided by the segment;
- the manufacturing process;
- the distribution method; and
- any external regulatory requirements.

The following operating segments have been identified

- (i) Manufacturing Division
- (ii) Distribution Division
- (iii) Corporate Division

Types of products and services by segment

(i) **Manufacturing Division**

The manufacturing segment develops and manufactures sustainable resins derived from renewable resources for the global packaging and plastic products industries.

NOTES TO THE PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS

The Manufacturing segment, that includes the manufacturing unit in China, is responsible for distribution and sales of products to the Chinese market, thus leveraging their local logistics management and business relationship.

The manufacturing segment also sells products to the distribution segment.

(ii) **Distribution Division**

The distribution segment includes the Group's distributors in Australia, Americas, Europe, and Asia, led by the Company's Business Development Managers in each of those regions. The distribution segment distributes the Company's manufactured stock items both domestically in the respective region and internationally.

(iii) **Corporate Division**

Corporate Division serves manufacturing and distribution divisions on financial, administrative and legal matters and also holds and manages portfolio of investments and interests held or acquired under five division business model of the Group.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors, are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

Inter-segment transactions

An internally determined transfer price is set for all inter-segment sales. This price is based on what would be realised in the event the sale was made to an external party at arm's length. All such transactions are eliminated on consolidation of the group's financial statements.

Inter-segment loans payable and receivable are initially recognised at the consideration received/to be received net of transaction costs. If inter-segment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates.

Segment assets

Where an asset is used across multiple segments, the asset is allocated to that segment that receives majority economic value from that asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Segment liabilities

Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Segment liabilities include trade and other payables.

Unallocated items

The following items of revenue, expenses, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment.

- Non –recurring items of revenue or expense
- Depreciation & Amortisations

NOTES TO THE PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS

10. Operating segments (continued)

Segment Performance

	Manufacturing Division	Distribution Division	Corporate	Total
Year ended 30.06.2014	\$	\$	\$	\$
Revenue				
External Sales	2,442,178	2,581,313	-	5,023,491
Inter –segment sales	1,075,776	-	-	1,075,776
Interest revenue	1,594	1,859	16,076	19,529
Other Income	1,016	304,202	12,646	317,864
Total Segment Revenue	3,520,564	2,887,374	28,722	6,436,660

Reconciliation of segment revenue to group revenue

Inter-segment elimination	(1,075,776)	-	-	(1,075,776)
Total Group Revenue	2,444,788	2,887,374	28,722	5,360,884

Segment Net Loss before Tax	(1,081,335)	(887,875)	(529,523)	(2,498,733)
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Reconciliation of segment result to group net loss before tax

Inter-segment elimination	-	-	-	-
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-Amount not included in segment result but reviewed by Board

- Depreciation & amortisation	(33,288)	(74,098)	(1,610)	(108,996)
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Net Loss before tax from continuing operations	(1,114,623)	(961,973)	(531,133)	(2,607,729)
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NOTES TO THE PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS

10. Operating segments (continued)

Segment Performance

	Manufacturing Division	Distribution Division	Corporate	Total
Year ended 30.06.2013	\$	\$	\$	\$
Revenue				
External Sales	2,031,552	3,019,023	-	5,050,575
Inter –segment sales	710,723	182	-	710,905
Interest revenue	122	5,230	5,442	10,794
Other Income	-	770,710	1,660	772,370
Total Segment Revenue	2,742,397	3,795,145	7,102	6,544,644

Reconciliation of segment revenue to group revenue

Inter-segment elimination	(710,723)	(182)	-	(710,905)
Total Group Revenue	2,031,674	3,794,963	7,102	5,833,739

Segment Net Loss before Tax	(692,046)	(265,633)	(491,571)	(1,449,250)
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Reconciliation of segment result to group net loss before tax

Inter-segment elimination	-	(34,933)	-	(34,933)
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-Amount not included in segment result but reviewed by Board

- Depreciation & amortisation	(104,099)	(31,636)	(1,177)	(136,912)
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-Impairment- Financial Assets	-	(1,439,045)	-	(1,439,045)
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Net Loss before tax from continuing operations	(796,145)	(1,771,247)	(492,748)	(3,060,140)
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NOTES TO THE PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS

10. Operating segments (continued)

	Manufacturing Division	Distribution Division	Corporate	Total
As at 30.06.2014	\$	\$	\$	\$
Segment Assets	1,778,506	15,327,350	14,847,735	31,953,591
Reconciliation of segment assets to group assets				
Inter-segment eliminations	-	(7,967,268)	(12,498,666)	(20,465,934)
Segment Assets after inter-segment eliminations	1,778,506	7,360,082	2,349,069	11,487,657

Segment asset increases for the period

- Capital expenditure

Included in segment assets are

- Goodwill

	Manufacturing Division	Distribution Division	Corporate	Total
As at 30.06.2013	\$	\$	\$	\$
Segment Assets	2,082,442	14,331,302	11,027,735	27,441,479
Reconciliation of segment assets to group assets				
Inter-segment eliminations	-	(7,525,278)	(9,808,265)	(17,333,543)
Segment Assets after inter-segment eliminations	2,082,442	6,806,024	1,219,470	10,107,936

Segment asset increases for the period

- Capital expenditure

Included in segment assets are

- Goodwill

19,823 6,000 - 25,823

- 5,126,905 - 5,126,905

NOTES TO THE PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS

10. Operating segments (continued)

Segment Liabilities

	Manufacturing Division	Distribution Division	Corporate	Total
As at 30.06.2014	\$	\$	\$	\$
Segment Liabilities	4,023,530	17,574,089	166,811	21,764,430
<i>Reconciliation of segment liabilities to group liabilities</i>				
Inter-segment eliminations	(3,432,547)	(16,852,470)	-	(20,285,017)
Total Group Liabilities	590,983	721,619	166,811	1,479,413

	Manufacturing Division	Distribution Division	Corporate	Total
As at 30.06.2013	\$	\$	\$	\$
Segment Liabilities	4,144,229	14,749,019	186,917	19,080,165
<i>Reconciliation of segment liabilities to group liabilities</i>				
Inter-segment eliminations	(3,092,602)	(14,108,712)	-	(17,201,314)
Total Group Liabilities	1,051,627	640,307	186,917	1,878,851

NOTES TO THE PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS

10. Operating segments (continued)

Revenue by geographical region

2014	2013
\$	\$

Sales revenue attributable to external customers is disclosed below, based on the location of the external customer

Australia	623,748	376,776
Asia	3,238,283	3,909,647
Americas	1,123,817	739,865
Others	37,643	24,287
Total Revenue	5,023,491	5,050,575

Non Current Assets by geographical region

2014	2013
\$	\$

The location of segment assets by geographical location of assets is disclosed below:

Australia	5,833,648	5,588,749
Asia	449,887	669,310
Total Assets	6,283,535	6,258,059

Major customers

The Group has a number of customers to whom it provides products. The Group has supplied a single external customer in the manufacturing segment who accounted for **21.75%** (2013: 18.61%) of external revenue. The next two significant customers accounted for **9.70%** (2013: 11.16%) and **5.54%** (2013: 4.21%) of external revenue respectively.

Returns to Shareholders

Not applicable.

Material Factors Affecting the Preliminary Consolidated Financial Statements

a) Revenue and Expenses

Revenue from Sales for the year of \$5.02M was consistent with Sales Revenue of the last year- \$5.05M, a key achievement was the delivery of 27% revenue growth from its main operations (Bioplastics business) to \$4.02M for the year, compared to \$3.17M last year.

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 year that required operational restructure and increased cost base as explained in Results.

b) Assets and Liabilities

The Company maintained its policy of writing off all R&D and Patent expenditure relating to the product development of its business units.

Available-for-Sale Financial assets are required to be assessed for impairment at each reporting date and the impairment loss if any shall be recognised in profit or loss in accordance with the requirements of AASB 139: Financial Instruments: Recognition and Measurement. Accordingly, the Company's financial Assets have been assessed for impairment and loss has been recognised wherever required-Refer Note 4 to Preliminary Consolidated Financial Statements.

In accordance with AASB -136, Goodwill acquired on the acquisition of Biograde Limited has been allocated to Distribution segment of the business, being cash generating unit.AASB-136 also requires Goodwill to be tested annually for impairment and impairment loss to be recognised if the carrying amount of the cash generating unit exceeds the recoverable amount of the unit. No Impairment loss on Goodwill has been recognised during the year- Refer Note 5 to Preliminary Consolidated Financial Statements.

c) Trends

Other than increase in sales revenue by 27% from its main operations (Bioplastics business) to \$4.02M for the year, compared to \$3.17M last year,, there were no other significant performance trends during the year.

d) Other Factors that Affected Results for the Year or which are likely to affect Results in the Future

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 last quarter. The successful completion of a \$2.7M capital raising during the June quarter provided the financial foundation for the operational restructure.

COMMENTARY ON RESULTS FOR THE YEAR

In this direction, the Company has already installed three new production lines in its new Nanjing manufacturing facility and have decided to further purchase six additional film extrusion and bag making lines which are due for delivery by the end of the September quarter.

Further as announced to the market in August 2014, the Company has decided to set up its own film and bag manufacturing plant in São Paulo, Brazil. New purpose-built facilities have been leased and production commencement is scheduled for September 2014. The production machinery costing A\$750,000 is funded using vendor finance over a twelve months period.

The new factory is expected to deliver a production capacity of 500 million retail carry bags per year. This capacity is over four times greater than that of the current Cardia Bioplastics manufacturing plant in Nanjing, China.

All these measures towards the vertical integration from Cardia Biohybrid™ resins to Cardia Biohybrid™ films and bags are expected to ensure product quality, control of supply, improved margins and enhanced cost structures that underpin Cardia's global growth strategy.

ACCOUNT AND AUDIT

There were no changes in accounting policies during the year and this report is based on accounts which are in the process of being audited.

Going Concern Assumption

As anticipated, the Consolidated Group's revenue from sales has been insufficient to cover operational costs of the business and hence the company experienced operating losses during the year ended 30 June 2014. The Company's continuing viability, its ability to continue as a going concern and to meet its debts and commitments as they fall due, are subject to the company being successful in:

- **Accessing additional capital** - The Company has a track record of raising capital; during 12 months to June 2014, the Company has successfully raised approx. \$4.5 million through rights issue and share placements.
- **Continuing to develop profitable cash flows from current activities**- The Group has been working on a number of development projects with global brand owners and international packaging companies. Some of these projects are in commercial negotiations and others have advanced to "in-market trials" stages. Whilst no assurances can be given, it is expected that on successful outcomes, these can significantly contribute positively to the group's cash flows. The Group has already been successful in converting some of these development projects to commercial orders, the details of which have been communicated via the Company's ASX announcements.

Moreover, Cardia's New Board is continuously seeking and have put in measures in place to redirect resources to activities that are cash-flow positive in the short-term.

- **Controlling costs**-The Group will continue to look for avenues to reduce costs as it develops its operations.

COMMENTARY ON RESULTS FOR THE YEAR

- **Ability to divest non-core assets to increase cash position-** The Group may consider divesting some of its non-core assets, the proceeds of which would yield a net inflow to future cash flows. The Group managed to sell its equity interest in P-Fuel Limited during the year.

The Directors are seeking to raise capital and in line with the above matters have prepared the Preliminary final report on a going concern basis. At this time the Directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the Report.

Rekha Bhambhani
Company Secretary
Dated: 29th August 2014