

**TO: COMPANY ANNOUNCEMENTS OFFICE
ASX LIMITED**

DATE: 20 January 2015

CARDIA BIOPLASTICS SIGNS AGREEMENT FOR MERGER WITH STELLAR FILMS GROUP

Following Cardia Bioplastics Limited (ASX: CNN) (**Company**) ASX Announcement of 13 January 2015, the Company is pleased to announce that due diligence is completed and the transaction document (**Share and Unit Sale Deed**) for the merger with Stellar Films Group (**Merger**) has been executed.

A summary of the key terms of the Share and Unit Sale Deed are as follows:

- A. in consideration for 100% of the issued shares and units in Stellar Films Group, the stakeholders of Stellar Films Group will be issued an aggregate of 55% of shares in the Company (which is revised from the previously agreed 58% as announced by the Company on 25 November 2014);
- B. the completion of the Merger is subject to certain conditions precedent, including the following:
 - i. the Company obtains the approval of its shareholders in respect of the Merger for the purposes of ASX Listing Rule 11.1.2, and any other purpose as required under the ASX Listing Rules and the *Corporations Act 2001* (Cth);
 - ii. the Company obtaining an independent expert's report which advises that the Merger is fair and reasonable;
 - iii. no material adverse change prior to completion;
 - iv. each third party consent has been obtained (such as the consent of financiers and lessors);
 - v. Stellar Films Group delivers to the Company such documents reasonably required by the Company to effect an escrow over the shares and units in Stellar Films Group for a period of 12 months; and
 - vi. certain key executives of Stellar Films Group must have agreed and entered into an executive service agreement with the Company;

As the Merger is subject to the approval of the Company's shareholders, the Company intends to dispatch a notice of meeting by 13 February 2015 and hold the extraordinary general meeting (**EGM**) to approve the Merger on 17 March 2015. Subject to the Merger being approved at the EGM, the Merger will be completed on or about 20 March 2015.

The Company intends to take the opportunity of the EGM to conduct a consolidation of its shares. The proposed share consolidation will reduce the number of shares on issue to create a more efficient capital structure. The Company's notice of meeting in respect of the EGM will contain further details about the proposed share consolidation. Subject to the approval of the Company's shareholders, shares will be consolidated at a ratio of 1 share for every 100 existing shares held.

The table below sets out the anticipated dates in respect of the Merger and share consolidation:*

Date	Action
13 February 2015	Dispatch notice of meeting in respect of the Merger
15 March 2015	Last day for proxies
17 March 2015	Company general meeting to approve the Merger and share consolidation
17 March 2015	Announcement if shareholders approve proposed share consolidation
18 March 2015	Last day for trading of shares on a pre-consolidated basis
19 March 2015	Trading in consolidated shares on a deferred settlement basis
20 March 2015	Completion of Merger and issue of consideration shares
23 March 2015	Last day to register transfers on a pre-consolidation basis
24 March 2015	<ul style="list-style-type: none"> • First day for dispatch of notice to each shareholder • First day for issue of new certificates (from now on, the Company rejects transfers accompanied by a certificate that was issued before the reorganisation)
30 March 2015	<ul style="list-style-type: none"> • Issue date • Deferred settlement market ends • Last day for dispatch of notice to each shareholder • Last day for issue of new certificates • Last day for shares to be entered into the holders' shareholdings to reflect the effect of the reorganisation
31 March 2015	Normal (T+3) trading of consolidated shares starts

*The above dates are indicative only. The Company may vary these dates in its absolute discretion.

Following the Merger, the Company proposes to undertake a capital raising pursuant to a prospectus to raise approximately \$3 million (**Capital Raising**). The proceeds of the Capital Raising will assist with funding future growth and working capital requirements of the Company.

The Company intends to announce further details in respect of the Capital Raising (including a proposed timetable in respect of the Capital Raising process) on or about the date of dispatch of the notice of meeting.

Rationale for Merger

The Company and Stellar Films Group originally partnered to produce environmentally friendly, high quality and cost competitive Biohybrid™ films tailored for the global personal care and hygiene products industry. The Biohybrid™ film produced on Stellar Films Group proprietary cast film process exhibits a high performance property profile. It is differentiated through its unique soft touch and warm feel that is ideal for personal care product applications such as disposable hygiene products.

Stellar Films Group is an Australian privately owned company that manufactures and globally markets high quality cast films to the personal care, hygiene and medical product industries. The company is headquartered in Melbourne and operates manufacturing facilities in Melbourne and Port Klang, Malaysia. Over the last fifteen years, Stellar Films Group with average sales over the last three years of over \$21 million has developed partnerships with customers in over twenty-seven countries throughout North America, Asia, Africa, the Middle East and Australia/New Zealand. In addition, Stellar Films Group holds an interest of 50.8% in Akronn Industries Sdn Bhd (**Akronn**). Akronn manufactures silicone-coated paper and film products at their Nilai, Malaysia operation supplying the global hygiene and medical packaging markets as well as the sustainable energy sector.

The Company develops, manufactures and markets its patented renewable resource-based materials and finished products, derived from the Company'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, the Company's headquarters and Global Application Development Centre is in Melbourne. The Company's Product Development Centre and resins manufacturing plant is in Nanjing, China and its manufacturing plants for film and bag products are in Nanjing, China and São Paulo, Brazil with further offices in Australia, USA and Malaysia, and a network of leading distributors across the Americas, Asia and Europe.

The close and efficient cooperation between the Company and Stellar Films Group over the last three years has clearly drawn out the strategic fit of the two businesses and the major benefits of a merger, including scale and geographic footprint of combined operations, market access and reach, production and operational savings, complementary intellectual property positions, resources to deliver business strategy and high quality management teams. The combined business has the scale and resources to deliver the successful implementation of the Company's profitable business growth strategy in its carrier bags, films & packaging, and waste management target market segments.

Demand for the Company's propriety resins and finished products is accelerating. In recent months the Company has secured a number of significant new orders and sales agreements from a range of domestic and international businesses. To maintain high level of customer satisfaction and to deliver on strategic customer orders, the Company must accelerate the expansion of its production capacity. The Merger will create a leader in sustainable packaging with sales revenues in excess of \$27 million per annum and much expanded production capacity for the Company's proprietary Biohybrid™ and compostable film products. A particular focus will be to maintain the Company's first to market position and to exploit its comprehensive patent portfolio. The merged business will offer a broad range of sustainable product solutions and is expected to benefit from the growth and trend towards more sustainability, particularly in the personal care and hygiene products market which is currently worth over \$72 billion and growing at 5.5% per annum.

Richard Tegoni
Chairman
Cardia Bioplastics Limited