

**TO: COMPANY ANNOUNCEMENTS OFFICE
ASX LIMITED**

DATE: 26 February 2015

Cardia Bioplastics strategic review of manufacturing operations

Cardia Bioplastics Limited (ASX: CNN) is pleased to announce the results of the strategic review of its manufacturing operations following the announcement of the proposed merger with Stellar Films Group.

Access to Stellar Films additional production capacity is a key strategic benefit of the merger, enabling Cardia to deliver on the growing demand for its Biohybrid™ hygiene films without extensive investment into new capital equipment. Cardia has the opportunity to further increase its blown film extrusion and bag making capacity through limited capital investment into Cardia's Chinese and Stellar's Malaysian production plants.

The integration of the group's operations will deliver innovative, cost effective and environmentally preferred packaging solutions to its global customers. The group benefits from the pull-through of Cardia Compostable and Biohybrid™ resins for the manufacture of cast films at Stellar's manufacturing plants. These environmentally friendly, high quality and cost competitive films are tailored for the global personal care, hygiene products, pet care and medical packaging industries.

Further value is added through the Akronn Joint Venture. Akronn's Malaysian operation will silicone coat Biohybrid™ cast films and convert them to film release liners for the personal care and hygiene industries. Biohybrid™ film release liners deliver innovative, soft touch, non-noisy and discreet environmentally friendly feminine hygiene pouch packaging that integrates non-stick functionality into the product packaging and therefore renders the requirement of additional paper release liners obsolete.

The merged group will benefit from the complimentary geographic presence of both Cardia and Stellar operations. With its three manufacturing plants located in Australia, China and Malaysia the group is well positioned to supply the growing demand of its expanding Asia Pacific customers. Asia Pacific is the fastest growing market of the \$72 billion absorbent hygiene products industry.

To increase Asia Pacific market share, the group will prioritise its financial resources to ensure production output is optimised in this growth region. The established nature of the existing Stellar Films operations will ensure supply of high quality Bioplastics film products with product approval processes already commenced with key target customers. Cardia's ability to deliver the highest quality product in a timely manner will underpin the continued growth of sales to these strategic global customers.

The need to act quickly and implement the realignment of the group's production assets and resources is a key priority. The merged business will prioritise its resources to its strategic higher value growth opportunities for sustainable resins and finished products. Cardia has therefore taken the strategic decision to discontinue funding of its Brazilian film and bag making operations. The Brazilian operation continues to require significant investment into equipment and working capital to deliver on existing sales opportunities for finished products such as retail carrier bags.

In relation to the discontinuation of its Brazilian film and bag making operations Cardia will recognise impairment losses on inventories and non-current assets totalling \$432,542 in its December 2014 Half Yearly Management Accounts.

Despite the discontinuation of its film and bag making operations, Cardia will remain committed to the Brazilian market place. The company will maintain its Brazilian market presence and continue its focus on the supply and distribution of its proprietary compostable and Biohybrid™ resins.

Governmental regulation will be the key to ensuring market success of bioplastics in Brazil. In this context, on 5 February 2015, the City of São Paulo has taken first steps and issued the inter-secretarial city ordinance 01/2015 that prohibits the distribution or sale of plastic bags to consumers in all shops in São Paulo. Only reusable bioplastic bags will be regulated for use by traders after a 60 day transition period. Exact bag specifications are currently being finalised by São Paulo's Municipal Urban Cleaning Authority.

Pending the enforcement of this ordinance by the City of São Paulo, mandating the use of renewable and lower carbon footprint plastics, Cardia expects Brazilian bag makers to place resin orders as Cardia resins, technology and specifications deliver on this mandate.

Richard Tegoni

Chairman

Cardia Bioplastics Limited