ACN 064 755 237

**TO: COMPANY ANNOUNCEMENTS OFFICE**
**AUSTRALIAN STOCK EXCHANGE**

**Date: 21st of June 2004**

**NOTICE OF GENERAL MEETING**

Please find attached a copy of the Notice of General Meeting that will be sent to shareholders.

Please note that the meeting will now be held on the 26th of July 2004.

Pat Volpe
Chairman

# CARDIA TECHNOLOGIES LIMITED

**(ACN 064 755 237)**

## NOTICE OF GENERAL MEETING

**Date of Meeting**
26 July 2004

**Time of Meeting**
2.30pm AEST

**Place of Meeting**
Ground Floor
Pacific Tower
737 Burwood Road
Hawthorn Victoria 3122

# CARDIA TECHNOLOGIES LIMITED

**(ACN 064 755 237)**

## NOTICE OF GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT A GENERAL MEETING OF SHAREHOLDERS OF CARDIA TECHNOLOGIES LIMITED (ACN 064 755 237) ("COMPANY") WILL BE HELD AT GROUND FLOOR, PACIFIC TOWER, 737 BURWOOD ROAD MELBOURNE IN THE STATE OF VICTORIA ON 26 JULY 2004 AT 2.30PM (AEST)**

## AGENDA

## BUSINESS:

**Resolution 1– Removal of Auditor**

**To consider and, if thought fit, to pass the following resolution as an ordinary resolution:**

"That PricewaterhouseCoopers be removed as auditor of the Company."

**Resolution 2 – Appointment of New Auditor**

**To consider and, if thought fit, to pass the following resolution as a special resolution:**

"That, inasmuch as:

1. pursuant to Section 328(1) of the Corporations Act 2001 ("the Act") Jeffrey Luckins of DFK Audit has been nominated in writing to be appointed as the auditor of the Company;

2. Jeffrey Luckins of DFK Audit has consented in writing to be appointed as auditor of the Company in accordance with the provisions of Section 327(7) of the Act and has not withdrawn that consent as at the date of this notice of meeting;

NOW IT IS HEREBY RESOLVED that subject to:

(a) the removal of PriceWaterhouseCoopers as auditors of the Company;

(b) Jeffrey Luckins of DFK Audit not withdrawing its consent in writing to act as auditor of the Company;

Jeffrey Luckins of DFK Audit be appointed as auditor of the Company in lieu of PriceWaterhouseCoopers with effect from the date on which PriceWaterhouseCoopers are removed as auditor of the Company."

**Resolution 3 – Grant of Options to Existing Optionholders**

**To consider, and if thought fit, to pass the following special resolution:**

"That inasmuch as the Company has previously granted options to acquire ordinary shares which options are exercisable at any time up to 5.00pm (EST) on 30 June 2004 at an exercise price of $0.20 (20 cents) per option ("30 June Options") and inasmuch as the current and foreseeable price of shares in the capital of the Company during the period from the date hereof until subsequent to the date on which the 30 June Options shall expire (if not exercised) is significantly less than the exercise price of the 30 June Options, IT IS HEREBY RESOLVED that, in accordance with and as required Listing Rule 10.11 and Listing Rule 7.1 of the Listing Rules of ASX, approval be granted for the Company to grant to each person registered as the holder of a 30 June Option at the time that it expires unexercised, one (1) option ("New Option") to acquire an ordinary share in the capital of the Company for each 30 June Option held at the time of its expiry with the maximum number of options being granted being not more than 127,488,655 options. The terms and conditions of the New Options shall be as set out in note 13 to this notice of meeting which terms and conditions are hereby incorporated in and form part of this resolution with each New Option granted at an issue price of $0.0025 (¼ of a cent) being exercisable at an exercise price of $0.10 (10 cents) at any time up until 31 December 2007."

**Resolution 4 – Authority to Directors and Related Parties to participate in Options Issue pursuant to Resolution 3**

**To consider, and if thought fit, to pass the following special resolution:**

"That in accordance with and as required Listing Rule 10.11 of the Listing Rules of ASX, approval be granted for each of the Directors of the Company and their Associates and Related Parties of the Company to participate in the proposed issue of Options to be made pursuant to Resolution 3 on this Notice of Meeting in like manner as any other person entitled to participate therein. The persons in respect of whom such approval is sought to be obtained, and the number of options sought to be granted thereto are as set out in Note 4 to this Notice of Meeting which is deemed to be incorporated in and form part of this resolution."

**Resolution 5 – Authority to Trayburn Pty Ltd, Fortuna Sanfermin Pty Ltd and Tony Technology (Holding) Company Limited to Underwrite Options Issue**

**To consider and, if thought fit, to pass the following resolution as a special resolution:**

"That for the purposes of Chapter 2E of the Corporations Act 2001 and Listing Rule 10.11 and Listing Rule 7.1 of the Listing Rules of ASX, approval is given for each of:

(a) Trayburn Pty Ltd (an associate of Mr P Volpe, a director of the Company);

(b) Fortuna Sanfermin Pty Ltd (an associate of Mr Desmond Kong-man Wan, a director of a subsidiary of the Company);

(c) Tony Technology (Holding) Company Limited (an associate of Mr Yue Sheng Fu, a director of the Company);

to underwrite the Options issue referred to in Resolution 4 on the basis that the proportion of the issue to be underwritten by each of them shall be as agreed between them and in default of agreement as determined by Trayburn Pty Ltd (with Trayburn Pty Ltd being entitled to underwrite any amount of the issue up to 100% thereof) and on the basis that the liability of each of such persons as underwriter shall be several in relation to the amount underwritten and not joint and on the basis that the underwriters shall be entitled to be paid an underwriting commission in an amount of up to 5% of the amount of the Issue together with payment of all reasonable costs and expenses incurred by them in relation to the underwriting and the Options issue generally with such underwriting to otherwise be on normal commercial terms and conditions to which such underwritings are commonly subject.

By Order of the Board of
**Cardia Technologies Limited**

P Volpe
Director
Dated: 15 June 2004

## NOTES

1. **Voting**

(a) Cardia has determined, in accordance with regulation 7.11.37 of the Corporations Regulations 2001 (Cth), that the shares of Cardia that are quoted on the Australian Stock Exchange as at 7.00pm on 23 July 2004, will be taken, for the purposes of the General Meeting, to be held by the persons who held them at that time. Accordingly, those persons will be entitled to attend and vote at the meeting.

(b) A Member entitled to attend and vote at a Meeting is entitled to appoint not more than two proxies to attend and vote on his behalf. Where more than one proxy is appointed, such proxy must be allocated a proportion of the Member's voting rights.

(c) A proxy duly appointed need not be a Member. In the case of joint holders all must sign.

(d) A form of proxy accompanies this Notice and, to be effective, the form and any document necessary to show the validity of the form of proxy must be lodged at the registered office of the Company not less than 48 hours before the time appointed for the Meeting. Any proxy lodged after that time will be treated as invalid.

(e) Directors and Officers of all corporate shareholders should note that unless the corporate shareholder either:

(i) completes and lodges with the Company a valid appointment of proxy in accordance with the instructions on the enclosed Proxy Form; or

(ii) completes and either lodges with the Company prior to the meeting a form of appointment of or certificate of appointment of personal representative in accordance with the provisions of Section 250D of the Corporations Law or causes such personal representative to attend the meeting with such form of appointment or certificate; or

(iii) has appointed an attorney;

and such proxy, personal representative or attorney attends the relevant meeting, then such corporate shareholder will be unable to exercise any votes at the relevant meeting.

(f) Proxies and corporate appointment of representative forms may be returned to the Company in any of the following ways:

(i) by delivery (by hand, mail, courier or facsimile) to the Company Secretary, Cardia Technologies Limited at its registered office:

Suite 510
Level 5
737 Burwood Road
Hawthorn Vic 3122.

Facsimile: **+61 3 9813 2668**

A reply paid envelope is enclosed with this notice of meeting for use by Cardia members whose address on the register is situate within Australia.

(ii) by delivery (by hand, mail, courier or facsimile)to Cardia's share registry, namely:

Computershare Investor Services Pty Ltd
Level 27, Central Plaza One
345 Queen Street
Brisbane Qld 4000

Facsimile: **+61 7 3229 9860**

(g) Corporate Members should comply with the execution requirements set out on the proxy form or otherwise comply with the provisions of Section 127 of the Act. Section 127 of the Act provides that a company may execute a document without using its common seal if the document is signed by:

(i) 2 directors of the company; or

(ii) a director and a company secretary of the company; or

(iii) for a proprietary company that has a sole director who is also the sole company secretary - that director.

For Cardia Technologies Limited to rely on the assumptions set out in Sections 129(5) and (6) of the Act, a document must appear to have been executed in accordance with Section 127(1) or (2). This effectively means that the status of the persons signing the document or witnessing the affixing of the seal must be set out and conform to the requirements of Section 127(1) or (2) as applicable.

In particular a person who witnesses the affixing of a common seal and who is the sole director and sole company secretary of the company must state that next to his or her signature.

(h) Completion of a proxy form will not prevent individual Members from attending the meetings in person if they wish. Where a Member completes and lodges a valid proxy form and attends the meeting in person then the proxy's authority to speak and vote for that Member is suspended while the Member is present at the meeting.

(i) Where a proxy form or form of appointment of or certificate of appointment of personal representative is lodged and is executed under power of attorney the power of attorney must be lodged in like manner as a proxy.

## 2. Resolutions 1 and 2: Removal of PricewaterhouseCoopers as Auditor and appointment of DFK Audit as Auditor

In relation to Resolutions 1 and 2 above, the removal of the auditor (PricewaterhouseCoopers) will enable the Company to obtain substitute audit services at a significantly lower price for future years than presently available from PricewaterhouseCoopers.

### (a) Requisition for Removal of PricewaterhouseCoopers as Auditor

Woorico Pty Ltd, a member of the Company has nominated Mr Jeffrey Luckins of DFK Audit to be appointed as auditor of the Company in lieu of PricewaterhouseCoopers and has requested that the Company convene a meeting of its members to be held to consider and, if thought fit, pass a resolution that PricewaterhouseCoopers be removed as auditor of the Company. Resolution 1 on the notice of meeting is pursuant to that request for PricewaterhouseCoopers' removal and Resolution 2 is included on the notice of meeting in response to the nomination. As required by Section 328(3) of the Act, a copy of that notice of nomination is enclosed with this notice of meeting, which is being sent to the auditor of the Company and to each person entitled to receive notice of general meetings whether under the Act or the Company's constitution.

### (b) Audit Costs

The quotation from DFK Audit (the proposed auditor) in relation to the year to end 30 June 2005 is significantly lower than the quote for that period obtained from PricewaterhouseCoopers. DFK Audit and Jeffrey Luckins of that firm are independent of the Company and its directors and major shareholders and have consented to act as auditor in the event that the members of the Company remove PricewaterhouseCoopers as the auditor.

(c) **Comment from PricewaterhouseCoopers**

PriceWaterhouseCoopers has confirmed to the Company that it will not be taking advantage of it's statutory right to make any representation to Cardia's members in relation to its removal as the company's auditor.

(d) **Directors' Recommendation**

The directors recommend that PricewaterhouseCoopers be removed as auditor of the Company. The Company has received a notice of intention to convene a meeting to remove PricewaterhouseCoopers as auditor and this meeting of members is convened in response to that notice.

The directors recommend the removal of PricewaterhouseCoopers as auditor because of the significantly increased cost of maintaining that firm as the Company's auditor. Discussions with PricewaterhouseCoopers indicate that the cost to the Company of that firm continuing to act as auditor will significantly exceed past costs. The cost of the audit for year ended 30 June 2003 was $45,000. The indicative quote received from PricewaterhouseCoopers for the cost of audit for year ended 30 June 2004 is approximately $67,000 while the comparative quotation from DFK Audit is $13,000.

The directors believe that the nature, scope and size of the Company's operations can be properly and satisfactorily audited by a smaller firm without the overhead and infrastructure costs of PricewaterhouseCoopers.

The directors recommend that members vote in favour of each of Resolutions 1 and 2.

(e) **Nomination of DFK Audit as Auditor**

As noted above, the Company has received a notice of nomination of Mr Jeffrey Luckins of DFK Audit to be auditor of the Company with effect from the date on which PricewaterhouseCoopers is removed as auditor.

(f) **DFK Audit's Qualifications**

In support of the recommendation that Mr Luckins be appointed as auditor, a brief summary of his experience and qualifications is set out below to enable the members to consider his qualifications and suitability for such appointment.

Mr Luckins is independent of the Company and is also independent of each of the directors of Cardia.

DFK Audit is an independent and specialist provider of audit and assurance services in Australia.

DFK Audit's practice is carried on from premises at Level 2, 70 Jolimont Street, East Melbourne in Victoria. Currently DFK Audit audits local, large and foreign companies, including (small capitalised) listed public companies. As Principal of DFK Audit, Jeffrey Luckins is a Registered Company Auditor, Certified Practising Accountant, Accredited Auditing Specialist and a member of the Centre of Excellence for Financial Reporting & Governance [CPA Australia].

DFK is an international association of independent accounting firms, there is no common ownership that exists between members of the network. The objective of DFK International is to enable members to fulfil responsibility to clients by making it possible for them to obtain quality services for their clients from fellow member firms located in Australia and around the world. The DFK network is represented in 60 countries of the world in 290 offices.

DFK Audit's website provides further information about DFK Audit at http://www.dfkaudit.com.au

(g) **Nature of Resolutions**

Resolution 1 is an ordinary resolution.

Resolution 2 is a resolution which must be passed by "a majority of not less than three-quarters of such members of the company as, being entitled so to do, vote in person or, where proxies are allowed, by proxy".

(h) **ASIC's Power to Appoint Auditor**

If Resolution 1 is passed removing PricewaterhouseCoopers as auditor but Resolution 2 is not passed by the statutory majority referred to above then under Section 327(11) of the Act the Company must give ASIC notice of the failure to appoint a new auditor and ASIC has power to then appoint as auditor a person or persons, firm or firms, who or which consent to be so appointed.

3. **Resolution 3: Grant of Options to Holders of Expiring Options**

The grant of options to the holders of expiring options is not an entitlements issue to members. The total number of options proposed to be granted will be up to 127,488,655 with these options being granted on a one for one basis. At an issue price of $0.0025 (.25 of a cent) the options issue if underwritten will raise approximately $318,721 with those options to be granted within 3 months from the date of passing of the resolution.

(a) **Eligibility to Vote**

**Members of the Company who held options expiring on 30 June 2004 and their associates are not entitled to vote in relation to this resolution.**

**The only members of Cardia entitled to vote in relation to this resolution are those members who did not hold options at the time of their expiry.** See the voting exclusion clause below.

The underlying rationale for the restriction on voting is to ensure that members who would receive a benefit from the passing of the resolution cannot use their voting power to approve the resolution in their own interests.

If the resolution is passed, all persons who held options at the time of their expiry on 30 June 2004 will be entitled to participate in the issue of options being approved, regardless of whether they are or are not members.

(b) **Participation in Issue**

Members who did not hold options at the time of their expiry on 30 June 2004 will not be entitled to participate.

Consequently, for the resolution to pass, the members who do not hold options will have had to form the opinion that it is either in their interests or in the interests of the Company that the grant of the options be approved.

An alternative to the current proposal could have been to allow the 30 June 2004 options to lapse and to merely make an entitlements issue of New Options on a one for one basis. However, and notwithstanding that such an issue would have benefited various of the proposed underwriters more than the current proposal the Directors consider that the existing optionholders, including those who have purchased options on market over the life of the option period are stakeholders in the Company as well as the Shareholders. It was this underlying philosophy that also saw the Company cause Dia-B Tech Limited ("Dia-B") grant options to acquire shares in Dia-B to the holders of the 30 June 2004 options in Cardia. By way of example of the above, Tony Technology (Holding) Company Limited holds 23,416,667 shares and on a one for one options issue would receive 23,416,667 New Options whereas under the current proposal it receives only 14,525,000 options and then only if members approve that participation. Again Pat Volpe's interests would receive 10,680,130 New Options under the current proposal but 11,680,130 under a one for one entitlements issue. Mr Peter Pena, holding 205,000 shares would receive 380,000 options under the current proposal as against 205,000 options under a one for one entitlements issue and Mr Ken Ingbritsen and his associates would receive 1,440,000 options under the current proposal as opposed to 1,310,000 options under a one for one entitlements issue. However, collectively the related parties referred to in note 4(a) below hold 25.32% of the shares and only 21.20% of the options.

Consequently, in aggregate the related parties are not advantaged by the current proposal given that, if a one for one rights issue were implemented they would hold 25.32% of the options, whereas, under the current proposal they will only, in aggregate, acquire 21.20% of the options under the current proposal.

That Resolution 5 seeks approval of an underwriting of the issue offered by the persons named in the resolution does not, in the opinion of the directors (excluding Mr Volpe and Mr Yue Sheng Fu), have relevance to the passing of Resolutions 3 or 4.

Essentially, as set out in the commentary on Resolution 5, the underwriting will only have effect to the extent that the offer is not taken up.

Members who do not hold options expiring 30 June 2004 may consider that the options issue should have been made as an entitlements issue. Given that only those persons may vote on Resolution 3: the passing of which is a necessary precursor to the making of the issue, they have it within their own hands to approve the issue being made as proposed or to prevent it being made.

If the sentiment of the members who did not hold options expiring 30 June 2004 is strongly against the basis on which the issue is proposed then, clearly, the resolution will fail. In that circumstance the board will need to consider carefully whether it proceeds with any options issue at all or whether it merely seeks to raise additional capital by way of placements in accordance with the Listing Rules and the provisions of Section 708 of the Corporations Act or by way of an issue generally and, if so, in what manner such an issue would be made and to whom it would be made.

(c) **Benefit to the Company**

The benefits to the Company are that first, it raises approximately $318,721 in working capital, which is needed, secondly, it puts in place a security under which the Company may, at the expiration of the options, raise significant additional capital.

(d) **Potential Dilution**

A potential disadvantage of the issue is the possible dilution that members will suffer if the options issue is exercised and the possible effect that the existence of the options: at an exercise price of 10 cents may have on the future market price of shares in the Company. However, given the current share price of the Company, the directors do not consider that an option exercisable at greater than 10 cents in the time frame for exercise proposed would have any appeal to any of the Company's securityholders.

(e) **Value of Proposed Options**

A valuation of the options shows that, on the Black & Scholes model the options have a value of $0.002355 (0.2355 of a cent) based on the following assumptions:

(i) a current share price of $0.041 (4.1 cents);

(ii) an exercise price of $0.10 (10 cents);

(iii) the options being granted on 31 July 2004 and expiring on 31 December 2007 (a total of 1,248 days);

(iv) an interest rate of 5.55% (contrasted with the current official rate of 5.25%);

(v) an historical volatility factor calculated over the period from 1 January 2004 to 31 May 2004 to avoid variations and fluctuations which may have been attributable to the effect of the distribution of shares in Dia-B Tech Limited (the subject of an initial Court Order on 19 January 2004).

On the basis of those parameters set out above:

(vi) the historical volatility factor was 33.5%;

(vii) the Black & Scholes model predicts that there is a 7.6% probability that the Options will be "in the money" by the time of their expiry;

(viii) the Black & Scholes model calculates a value for the Options of $0.002355 (0.2355 of a cent).

In considering Resolutions 3, 4 and 5 members eligible to vote should note the terms of grant of the options, the Black & Scholes valuation detailed above and generally, the fact that the current share price for shares in the capital of Cardia is approximately half the exercise price of the options proposed to be granted.

Members should note that the value derivable from a Black & Scholes model will depend on the assumptions chosen. In the circumstances set out above, the period over which historical volatility has been calculated is a period of five months. This period was chosen because it effectively coincides with the period after which both the Dia-B distribution in specie and the A-Cap float occurred. Share prices before that date would arguably reflect the prior ownership of those assets and the fact that the transactions referred to had not been completed. Some indication of the net effect for example of completion of the A-Cap transactions and the subsequent listing of A-Cap can be seen from the fact that those assets have given A-Cap a market value of approximately $3.8 million based on limited trading on the Stock Exchange of Newcastle Limited. Whether that value is a true value for the assets of A-Cap is perhaps a separate issue.

By way of example of the above, using the same parameters as set out above but calculating historical volatility over the past three years and five months (the same as the forward term of the proposed options) a volatility factor of 53.5% is derived and when this factor is used to calculate the value of the options in the Black & Scholes model, the value of the options becomes 7.71 cents (which is almost twice the value of the actual shares currently on issue). This illustrates the difficulty of using a Black & Scholes model in what may be described as a comparatively illiquid low value stock. By way of clarity, the directors consider that the period on which the historical volatility was calculated is appropriately five months and not a longer period for the reasons set out above. The comments set out in this paragraph, however, are included to illustrate the results that an arbitrary application of a modelling tool can create.

(f) **Recent Dealings in Shares and Options of the Company**

In considering the terms of Resolutions 3, 4 and 5 members should note the recent trading history of the Company detailed below and the further information in relation to trading in the shares of the Company for the five month period which underlies the Black & Scholes valuation referred to above and which are referred to and summarised in note 5(d)(i)-(iii) (both inclusive) which shows a decreasing average price per share over that five month period from an average price of marginally in excess of 6 cents per share calculated over the whole of the five month period to an average price marginally in excess of 4 cents over the month ended 31 May 2004.

**Recent dealings in Shares of the Company**

The latest recorded sale price for the Shares, before the date of this notice was 3.3 cents. This price is below the then current share price used in the calculation of value of the New Options in the Black & Scholes valuation referred to above.

The highest recorded sale price for the Shares during the three months immediately preceding that date was 7.9 cents, being a sale recorded on 17 March 2004, the lowest recorded sale price during that period was 3.3 cents, being a sale recorded on 11 June 2004.

In the three months immediately before the date this notice of meeting the number of the Shares sold on the Stock Exchange was 7,894,596. Accordingly, the average price paid during that period calculated by taking the total proceeds of sale and dividing by the number of shares sold was 4.65 cents per Share.

**Recent dealings in Options of the Company**

The latest recorded sale price for the options expiring 30 June 2004, before the date of this notice was 0.5 cents.

The highest recorded sale price for those options during the three months immediately preceding that date was 0.8 cents, being a sale recorded on 3 June 2004, the lowest recorded sale price during that period was 0.1 cents, being a sale recorded on 20 May 2004.

In the three months immediately before the date this notice of meeting the number of those options sold on the Stock Exchange was 13,800,493. Accordingly, the average price paid during that period calculated by taking the total proceeds of sale and dividing by the number of those options sold was 0.38 cents per option.

The purpose of the resolution is to grant all those persons who are the holders of 30 June Options at the date of their expiry with replacement options.

The issue of the Options will be by way of a prospectus issued in accordance with the provisions of the Corporations Act 2001. As set out in Resolution 5 it is proposed that the Options issue be underwritten by Trayburn Pty Ltd, a company associated with and controlled by Mr Pat Volpe, a director of the Company.

(g) **Voting exclusion statement: Persons registered as Optionholders on expiry of 30 June 2004 Options**

**Cardia will disregard any votes cast on the resolution by any member of Cardia registered as the holder of any options expiring on 30 June 2004 or any associate of any such person or the proposed underwriters named in resolution 5 or any of their associates within the meaning of the Act. However, Cardia will not disregard a vote if:**

(i) **it is cast by any such person or any of its associates as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or**

(ii) **it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.**

(h) **Terms and Conditions of the Options**

The terms and conditions of the Options as referred to in Resolutions 3 and 4 are as follows:

(a) Each option entitles the holder to subscribe for 1 ordinary share in Cardia Technologies Limited ACN 064 755 273 ("**the Company**") upon the payment of $0.10 (10 cents).

(b) The options will lapse at 5.00pm (AEST) on 30 June 2007 ("**Expiry Date**").

(c) The options are transferable.

(d) There are no participating rights or entitlements inherent in these options and holders of the options will not be entitled to participate in new issues of capital that may be offered to shareholders during the currency of the option.

(e) Optionholders have the right to exercise their options prior to the date of determining entitlements to any capital issues to the then existing shareholders of the Company made during the currency of the options, and will be granted a period of at least 12 business days before books closing date to exercise the options.

(f) In the event of any re-organisation (including reconstruction, consolidation, subdivision, reduction or return of capital) of the issued capital of the Company, the options will be reorganised as required by the Listing Rules, but in all other respects the terms of exercise will remain unchanged.

(g) The options shall be exercisable at any time during the period commencing on the date the Company's ordinary shares are admitted to quotation on Australian Stock Exchange Limited and ending on or before the Expiry Date ("**Exercise Period**") by the delivery to the registered office of the Company of a notice in writing ("**Notice**") stating the intention of the optionholder to exercise all or a specified number of options held by them accompanied by an Option Certificate and a cheque made payable to the Company for the subscription monies for the shares. The Notice and cheque must be received by the Company during the Exercise Period. An exercise of only some options shall not affect the rights of the optionholder to the balance of the options held by him.

(h) The Company shall allot the resultant shares and deliver a statement of shareholdings with a holders' identification number within 5 business days of exercise of the options.

(i) The shares allotted shall rank, from the date of allotment, equally with the existing ordinary shares of the Company in all respects.".

4. **Authority for Directors and Associates and Other Related Parties to Participate in the Options Issue**

In accordance with Listing Rule 10.11, approval is sought for directors and their associates and other related parties of the Company to participate in the Options issue sought to be approved pursuant to Resolution 3. If resolution 4 is passed, and the waiver referred to below granted, then the options to be granted to the related parties will be granted within 3 months from the date of passing of the resolution.

(a) **Details of related Parties**

The persons who will benefit from the passing of this resolution by being entitled to participate in the Options issue are as follows and their present equity holdings are set out in the table below. This table differs from that set out in note 5 where the interests of the underwriters and their associates within the meaning of the Corporations Act are aggregated in relation to each proposed underwriter. The table set out below sets out the details of the actual holders of securities in question and also sets out their current percentage shareholding and optionholding. The table also identifies where a holder is an associate of a director (including directors of subsidiary entities) and in each such case sets out the name of the associated Director.

| Related Party (registered holder) | Associate of Director | Shares held | % Share-holding | Options held | % Option-holding | Number of Options to be granted to related party |
|---|---|---|---|---|---|---|
| **Patrick John Volpe** | | 0 | **0** | 0 | **0** | **0** |
| **Trayburn Pty Ltd** | P Volpe | 0 | **0** | 0 | **0** | **0** |
| **Vermar Pty Ltd** | P Volpe | 11,680,138 | **8.07** | 10,680,130 | **8.38** | **10,680,130** |
| **Fortuna Sanfermin Pty Ltd** | D Wan | 0 | **0** | 0 | **0** | **0** |
| **Rochelle Olenski** | D Wan | 23,000 | **0.02** | 0 | **0** | **0** |
| **Yue Sheng Fu** | | 0 | **0** | 0 | **0** | **0** |
| **Tony Technology (Holding) Company Limited** | Yue Sheng Fu | 23,416,667 | **16.18** | 14,525,000 | **11.39** | **14,525,000** |
| **Kenneth James Ingbritsen** | | 0 | **0** | 0 | **0** | **0** |
| **Ingbritsen Super Fund** | K Ingbritsen | 1,010,000 | **0.70** | 690,000 | **0.54** | **690,000** |
| **Eco Architects** | K Ingbritsen | 300,000 | **0.21** | 750,000 | **0.59** | **750,000** |
| **Peter Pena** | | 205,000 | **0.14** | 380,000 | **0.30** | **380,000** |
| **Totals** | | | **25.32%** | | **21.20%** | **27,025,130** |

As can be seen from the above, the aggregate percentage shareholding of all of the above parties totals 25.32% of the shares on issue and the aggregate optionholding of 30 June 2004 options totals 21.20% of the 30 June 2004 options extant. Given that the proposed options issue is one for one in relation to the options expiring on 30 June 2004 the net effect of the proposed issue on interests of related parties comprising directors, their associates and substantial shareholders is that these related parties will be entitled to a lower percentage of the proposed options issue if it is made on the basis set out in Resolution 3 than they would be if the options issue was made on an entitlements basis. Consequently, although, in particular, Mr Ingritsen's and Mr Pena's interests receive higher option entitlements under the current proposal, when considered as a whole, the related parties do not.

(b) **Application for Waiver**

The Company has made application for a waiver of Listing Rule 10.13.3 to permit the issue to be made at the expiration of that 3 month period rather than the expiration of the one month period referred to in that Listing Rule. The reason for the application for a waiver is that the issue of the options must be by way of a prospectus issue and the board considers that it is appropriate to allow those entitled to make application for the issue, assuming the resolution approvinig same is passed, a reasonable period in which to make application. If the waiver is not granted by ASX then the period during which the offer will remain offer for acceptance will be restricted to enable the placement/issue to be made within the one month period referred to in Listing Rule 10.13.3.

(c) **Directors Not Entitled to make Recommendation**

Because each director is a related party and each director, or their associates, will receive benefits (participation in the issue) if the resolution is passed, no director of the Company is able to make a recommendation.

However, directors ask that members take into account that the purpose of the issue being formulated in the way it is, is to benefit all optionholders holding options expiring 30 June 2004 who are stakeholders in the Company in like manner as shareholders: the intent is not to advantage related parties, and in fact they are not advantaged by the structure of the issue. Related parties would have an entitlement to an increased percentage of the issue and the right to participate without specific approval being required if the issue was an entitlements issue.

Consequently any perception that the issue is structured for the benefit of related parties should not exist.

(d) **Voting exclusion statement: Directors and Related Parties**

**Cardia will disregard any votes cast on the resolution by any director of Cardia or of any of its subsidiary entities or by any related party of Cardia or any associate of any such director or related party. However, Cardia will not disregard a vote if:**

(i) **it is cast by any such person or any of its associates as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or**

(ii) **it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.**

5. **Authority to Trayburn Pty Ltd, Fortuna Sanfermin Pty Ltd and Tony Technology (Holding) Company Limited to Underwrite the Options Issue**

Resolution 5 authorises Trayburn Pty Ltd, Fortuna Sanfermin Pty Ltd and Tony Technology (Holding) Company Limited to underwrite the Options issue. These entities are associated with directors of the Company as referred to in Resolution 5. At present, the issued capital of the Company comprises 144,725,588 ordinary shares each credited as fully paid and there are extant 127,488,655 options to acquire ordinary shares exercisable on or before 30 June 2004 at an exercise price of 20 cents per option.

(a) **Equity Interests of Proposed Underwriters**

The present equity interests of each of the proposed underwriters, and their associates, are as set out in the table below.

| Name of Underwriter | Shareholding | Optionholding |
|---|---:|---:|
| Trayburn Pty Ltd | 11,680,138 | 10,680,130 |
| Fortuna Sanfermin Pty Ltd | 23,000 | 0 |
| Tony Technology (Holding) Company Limited | 23,416,667 | 14,525,000 |
| | **35,119,805** | **25,205,130** |

For the purpose of Section 610 of the Corporations Act, which defines voting power as being the total number of votes attached to all voting shares in the entity in which a person or his associates has a relevant interest in:

(i) Trayburn Pty Ltd's voting power is 8.0705% of the total votes attached to all of the voting shares in the capital of the Company.

(ii) Fortuna Sanfermin Pty Ltd's voting power is 0.0001589% of the total votes attached to all of the voting shares in the capital of the Company.

(iii) Tony Technology (Holding) Company Limited's voting power is 16.180% of the total votes attached to all of the voting shares in the capital of the Company.

Members should be aware that the acquisition by any person of options does not change voting power. That voting power will only change in accordance with changes in the relevant interests in shareholdings of any member or of those of his associates.

(b) **Approval required because Issue is not pro rata Entitlements Issue**

It should be noted that if the New Options issue were made as an entitlements issue then the underwriters would be able to underwrite the issue without any approval of members being required to be granted. The provisions of Chapter 7 of the Listing Rules make it clear in Listing Rule 7.2 (Exception 2) that an issue under an underwriting agreement to an underwriter of a pro rata issue to holders of ordinary securities does not require approval of members if the underwriter receives the securities within 15 Business Days after the close of the issue and this exception is repeated in Listing Rule 10.12 as Exception 2.

(c) **Possible Effect of Underwriting on Trayburn Pty Ltd's Equity Interests**

Inasmuch as Resolution 5 provides that the Options issue is to be underwritten by the underwriters as agreed between themselves and, in default of agreement, as determined by Trayburn Pty Ltd including in that circumstance Trayburn Pty Ltd underwriting 100% of the Options issue (because it cannot arbitrarily impose liability on third parties) and **assuming** that:

(i) Trayburn Pty Ltd did underwrite the **entire** Options issue;

(ii) **no other persons entitled to participate in the Options issue applied for any Options** at all with the result that the shortfall required to be taken up by the underwriter was 100% of all of the Options (a total number of 127,488,655 Options at a total cost of $318,721 to Trayburn Pty Ltd;

(iii) the members of **the Company in due course** prior to the expiry of the Options **passed the necessary resolution under Exception 7 in the table in Section 611 of the Corporations Act to enable Trayburn Pty Ltd to exercise all of the Options in a manner not in breach of the provisions of Section 606 of the Corporations Act** which restricts any shareholder or other person from acquiring more than 20% of the issued capital of a company other than in accordance with Section 611 and the provisions of Chapter 6 of the Corporations Act generally;

(iv) **Trayburn Pty Ltd subsequently subscribed $12,748,865.50** to exercise all the Options;

(v) **no further shares were issued in the capital of the Company** between the date hereof and the date on which Trayburn Pty Ltd subscribed for all of the Options;

then the effect on Trayburn Pty Ltd's voting power would be significant. In that circumstance, Trayburn Pty Ltd's voting power would have increased from 8.0705% to 51.1247% of the then issued capital of the Company.

**However, although the above information is provided, the possibility set out would only occur in the exceptionally unlikely events that:**

- the terms of the Options issue, including the exercise price was so unattractive that no current optionholder (regardless of whether the optionholder is or is not a member of the Company) was prepared to take up any entitlement;

- at the time that Trayburn Pty Ltd sought to obtain members' approval for the exercise of the Options (so that no breach of Section 606 of the Corporations Act occurred) the share price of shares in the capital of the Company was so low that members considered that it was in their interests for Trayburn Pty Ltd to exercise the Options;

- in those circumstances, Trayburn Pty Ltd elected to exercise the Options even if it was uneconomic to do so: rather than to seek to procure that the Company made other arrangements for capital raising such as a rights issue.

Clearly, the exercise of the options would increase Trayburn Pty Ltd's voting power to in excess of 20%, which would require further shareholder approval other than to the extent to which Trayburn Pty Ltd could exercise options to acquire shares under the rule in Exception 9 in the table to Section 611 permitting a 3% creeping acquisition at the expiration of each 6 month period. If the options were significantly attractive comparative to the then market price of the shares the members would not necessarily approve their exercise because this may not be in their interests. However, in that circumstance, Trayburn Pty Ltd could sell the options on the market if buyers were available: at least to the extent to which Trayburn Pty Ltd could not increase its shareholding without breach of the provisions of Section 606 of the Corporations Act.

The same point applies to each of the underwriters and any options which they may acquire pursuant to the underwriting. Put simply, they can only exercise the options to increase their shareholding in the Company where that increase in shareholding is compliant with the restrictions contained in Chapter 6 of the Corporations Act which restricts acquisition of shareholdings in excess of 20% other than through specific statutory gateways: including the 3% creep provision.

(d) **Related Party Provisions**

Section 228 of the Act dealing with related parties and financial benefits requires that certain procedures are required to be followed where a financial benefit may be given to a related party of a public company. The giving of a financial benefit can include issuing securities to a related party (including options).

**Reasonableness of Benefits**

Section 210 of the Act provides that members' approval is not needed to give a financial benefit on terms that would be reasonable in the circumstances if the public company and the related party were dealing at arms-length.

As noted above, a Black & Scholes valuation of the options proposed to be granted shows that the value of the options proposed to be granted is $0.002355 per option as against an issue price of $0.0025 (one quarter of one cent) per option. On this basis, the issue price of the options exceeds their value and consequently the directors (other than Mr Volpe and Mr Yue Sheng Fu) considered that the terms of grant of the options are fair and reasonable. The Black & Scholes valuation reflects that the options are out of the money.

The operation of the Black & Scholes model in valuing options in companies such as Cardia is, at best, of limited value as these companies have minimal trading and the price range of shares in such a company can vary quite significantly on miniscule volumes.

Another basis on which shares in such a company can be reviewed and the terms of options considered is to have regard to total trades over a period of time. This information is available from your broker and ASX but over the same period used in calculating historical volatility for the Black & Scholes valuation detailed herein the following information is given:

(i) in the week ending 31 May 2004 the average price of 3,971,667 shares traded on the market was $0.044163 (4.4163 cents);

(ii) in the rolling month ending 31 May 2004 the average price of 5,021,500 shares traded on the market was $0.04488 (4.488 cents);

(iii) in the period from 1 January 2004 to 31 May 2004 the average price of 12,844,992 shares traded on the market was $0.062173 (6.2173 cents).

Members should consider against both the Black & Scholes valuation model of the options and the above information whether the terms of the options are fair and reasonable and also have regard to that conclusion when considering how to vote in relation to Resolutions 4 and 5.

In all the circumstances, the directors of Cardia (other than Mr Volpe and Mr Yue Sheng Fu) consider that the terms of the grant of the options set out in Resolution 3 are reasonable and that the grant of the options, would if it were subject to the related party provisions of the Act contained in Chapter 2E, fall within the exception to the requirement for member approval contained in Section 210 of the Act.

The directors of Cardia (other than Mr Volpe and Mr Yue Sheng Fu) also consider that the terms on which Trayburn Pty Ltd, Fortuna Sanfermin Pty Ltd and Tony Technology (Holding) Company Limited have agreed to underwrite the options issue are likewise reasonable within the meaning of Section 210 of the Act. Those terms are the standard terms on which underwriters are commonly offered underwritings for issues of securities by public companies as evidenced by the terms and conditions of underwriting set out in numerous prospectuses and offer documents from time to time.

**Nature of Benefits**

Notwithstanding the above and in compliance with the spirit of Chapter 2E of the Act, the nature of the financial benefits which may be obtained by the underwriters and their associates, are that:

(i) the underwriters will receive a 5% fee for underwriting the options issue.

(ii) the underwriters will obtain the advantages likewise obtained by any other holder of the options who may seek to take up his or her entitlement if Resolution 3 is passed, namely, that notwithstanding any direct benefit that may be obtained on the terms of grant of the option, the optionholder may make a profit from:

(iii) trading the options if the market price thereof at any time exceeds the cost of acquisition of the options (assuming that an adequate market exists to enable the optionholder to sell the options);

(iv) exercising the option if and when the value of the company's ordinary shares exceed the exercise price of the option and by disposing of the resultant shares so acquired;

(v) exercising the options and holding the resulting shares in order to participate in long-term growth in the underlying value of the entity;

or any combination of the above.
No assurance can be given as to the future performance of the Company or as to future share prices. The making of any profit from the exercise of the options in the present circumstances is purely hypothetical although the benefit which is granted is the potential opportunity for that to occur.

In considering this matter and in determining to approve or not approve of Trayburn Pty Ltd, Fortuna Sanfermin Pty Ltd and Tony Technology (Holding) Company Limited underwriting the issue of the options, members should be aware that they will only acquire options where the person being granted the opportunity to acquire them do not take up their rights: either because they are financially unable to or, for some reason, they have made a decision not to invest further in the Company's securities or, at least, in options due to their nature.

**Directors' Recommendations**

The directors of Cardia other than Messrs Volpe and Yue Sheng Fu are Messrs Kenneth James Ingbritsen and Peter Pena.

Mr Ingbritsen and Mr Pena each separately recommend to members of Cardia that they vote in favour of the resolution permitting Trayburn Pty Ltd, Fortuna Sanfermin Pty Ltd and Tony Technology (Holding) Company Limited to underwrite the issue of options for the following reasons:

(i) he considers that the terms of the proposed options issue are fair and reasonable and that it is appropriate to enable the holders of the 30 June 2004 options the opportunity to acquire replacement options on the terms set out in this notice of meeting;

(ii) the underwriting of such an issue of options will ensure that the anticipated proceeds of the issue are received;

(iii) Cardia has limited working capital at present and the net proceeds from the issue will supplement that working capital;

(iv) if the options issue is underwritten by each of those persons, they will have an increased incentive to cause Cardia to perform which should be in the interests of all of its securityholders. It is recorded that if the meeting does not pass Resolution 4 the directors will nonetheless seek to have the issue underwritten.

**Interests of other Directors**

None of the directors of the Company or of any of its subsidiary or controlled entities, other than Mr Pat Volpe, Mr Desmond Kong-man Wan and Mr Yue Sheng Fu has any interest in the outcome of the proposed resolution.

**Other Information and Relevant Matters**

Directors are not aware of any other information that would be reasonably required by members to make a decision in relation to the financial benefits contemplated by these resolutions other than as stated herein.

Members should note that the grant of the options does not increase the voting power of any optionholder or of any of the underwriters or their associates. For that to happen they will have to exercise the options to which they may become entitled and make payment for them at the rate of $0.10 per share. When exercising options and increasing their respective interests in shares in the capital of Cardia they will be required to comply with the provisions of the Act.

(e) **Voting exclusion statement: Underwriters and their Associates**

**Cardia will disregard any votes cast on the resolution by any of the persons named as underwriters in the resolution or any of their associates. However, Cardia will not disregard a vote if:**

(i) **it is cast by any such person or any of its associates as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or**

(ii) **it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.**

**PROXY FORM**
**CARDIA TECHNOLOGIES LIMITED (ACN 064 755 237)**

The Company Secretary
Cardia Technologies Limited
Suite 510
Level 5
737 Burwood Road
Hawthorn Vic 3122

I/We (name of shareholder)..........................................................................................................................

of (address)..........................................................................................................................

being a member/members of Cardia Technologies Limited HEREBY APPOINT

(name) ..........................................................................................................................

of (address) ..........................................................................................................................

and/or failing him (name) ..........................................................................................................................

of (address) ..........................................................................................................................
or failing that person then the Chairman of the General Meeting as my/our proxy to vote for me/us and on my/our behalf at the General Meeting of the Company to be held at Ground Floor, Pacific Tower, 737 Burwood Road, Hawthorn Vic 3122 on 26 July 2004 at 2.30pm AEST and at any adjournment of the meeting.

**INSTRUCTIONS AS TO VOTING ON RESOLUTIONS**

If no directions are given my proxy may vote as the proxy thinks fit or may abstain. Otherwise the Proxy is to vote for or against the resolutions referred to in the notice convening the General Meeting as follows:

| | | FOR | AGAINST | ABSTAIN |
|---|---|---|---|---|
| Resolution 1– | To remove PricewaterhouseCoopers as auditor | ☐ | ☐ | ☐ |
| Resolution 2 – | To appoint Jeffrey Luckins of DFK Audit as auditor | ☐ | ☐ | ☐ |
| Resolution 3 – | To grant options to persons holding 30 June Options on the expiry thereof | ☐ | ☐ | ☐ |
| Resolution 4 – | To approve directors and related parties participating in the grant of options under Resolution 3 | ☐ | ☐ | ☐ |
| Resolution 5 – | To authorise Trayburn Pty Ltd, Fortuna Sanfermin Pty Ltd and Tony Technology (Holding) Company Limited underwrite the placement of Options the subject of resolution 3 | ☐ | ☐ | ☐ |

**This Proxy is appointed to represent ___ % of my voting right, or if 2 proxies are appointed Proxy 1 represents _____% and Proxy 2 represents ____% of my total votes. My total voting right is ________ shares.** If no direction is given above or if more than one box is marked, I/we authorise my/our proxy to vote or abstain as my/our proxy thinks fit in respect of the resolution to be considered by the meeting and any adjournment of the meeting.
**Signature(s)**

Date

| Individual or Joint Shareholder 1 | Joint Shareholder 2 | Joint Shareholder 3 |
|---|---|---|
| | | |
| Director/Company Secretary | Director | Sole Director & Sole Company Secretary |

## INSTRUCTIONS FOR APPOINTMENT OF PROXY

1. A Member entitled to attend and vote at a Meeting is entitled to appoint not more than two proxies to attend and vote on his behalf. Where more than one proxy is appointed, such proxy must be allocated a proportion of the Member's voting rights.

2. A proxy duly appointed need not be a Member. In the case of joint holders all must sign.

3. A form of proxy accompanies this Notice and, to be effective, the form and any document necessary to show the validity of the form of proxy must be lodged at the registered office of the Company not less than 48 hours before the time appointed for the Meeting. Any proxy lodged after that time will be treated as invalid.

4. Directors and Officers of all corporate shareholders should note that unless the corporate shareholder either:

   (a) completes and lodges with the Company a valid appointment of proxy in accordance with the instructions on the enclosed Proxy Form; or

   (b) completes and either lodges with the Company prior to the meeting a form of appointment of or certificate of appointment of personal representative in accordance with the provisions of Section 250D of the Act or causes such personal representative to attend the meeting with such form of appointment or certificate; or

   (c) has appointed an attorney;

   and such proxy, personal representative or attorney attends the relevant meeting, then such corporate shareholder will be unable to exercise any votes at the relevant meeting.

5. Proxies and corporate appointment of representative forms may be returned to the Company in any of the following ways:

   (a) Proxies and corporate appointment of representative forms may be returned to the Company in any of the following ways:

      (i) by delivery (by hand, mail, courier or facsimile) to the Company Secretary, Cardia Technologies Limited at its registered office:

      Suite 510
      Level 5
      737 Burwood Road
      Hawthorn Vic 3122.

      Facsimile: **+61 3 9813 2668**

      (ii) by delivery (by hand, mail, courier or facsimile)to Cardia's share registry, namely:

      Computershare Investor Services Pty Ltd
      Level 27, Central Plaza One
      345 Queen Street
      Brisbane Qld 4000

      Facsimile: **+61 7 3229 9860**

   A reply paid envelope is enclosed with this notice of meeting for use by Cardia members whose address on the register is situate within Australia.

6. Corporate Members should comply with the execution requirements set out on the proxy form or otherwise comply with the provisions of Section 127 of the Act. Section 127 of the Act provides that a company may execute a document without using its common seal if the document is signed by:

- 2 directors of the company; or
- a director and a company secretary of the company; or
- for a proprietary company that has a sole director who is also the sole company secretary - that director.

For the Company to rely on the assumptions set out in Sections 129(5) and (6) of the Act, a document must appear to have been executed in accordance with Section 127(1) or (2). This effectively means that the status of the persons signing the document or witnessing the affixing of the seal must be set out and conform to the requirements of Section 127(1) or (2) as applicable. **In particular a person who witnesses the affixing of a common seal and who is the sole director and sole company secretary of the company must state that next to his or her signature.**

7. Completion of a proxy form will not prevent individual Members from attending the meetings in person if they wish. Where a Member completes and lodges a valid proxy form and attends the meeting in person then the proxy's authority to speak and vote for that Member is suspended while the Member is present at the meeting.

8. Where a proxy form or form of appointment of or certificate of appointment of personal representative is lodged and is executed under power of attorney the power of attorney must be lodged in like manner as a proxy.

9. Inasmuch as the Chairman of the meeting is appointed as proxy for a securityholder if the securityholder does not nominate another person as his primary proxy and inasmuch as, in the absence of a primary proxy so appointed, the proxy form also provides for the Chairman of the meeting to act as proxy, the following information is given pursuant to Listing Rule 14.2.

**Chairman's Voting Intention in relation to Undirected Proxies**

Subject to the operation of the express voting exclusions contained in the notes to the notice of meeting and their operation in accordance with the requirements of Listing Rule 10.13.6 it is the Chairman's intention to vote undirected proxy in favour of each resolution to be put to the meeting.

**If you do <u>not</u> wish to direct your proxy how to vote, please place a mark in the box.** ☐

**By marking this box, you acknowledge that the Chairman may exercise your proxy even if he has an interest in the outcome of the resolution and votes cast by him other than as proxy holder will be disregarded because of that interest.**

27/5/04 ✓

27 May 2004

The Secretary
Cardia Technologies Limited
Suite 5.10
Level 5
737 Burwood Road
HAWTHORN VIC 3122

Dear Sir,

**WOORICO PTY LTD** (ACN 009 861 090) of PO Box 933, Southport in the State of Queensland a member of Cardia Technologies Limited ("the Company") request that the Company convene a general meeting of its members to be held on Friday, 30 July 2004 to consider, and if thought fit, pass a resolution that PricewaterhouseCoopers be removed as auditor of the Company.

**WOORICO PTY LTD** hereby nominates Jeffrey Luckins of DFK Audit for appointment as auditor of the Company in lieu of PricewaterhouseCoopers.

Yours faithfully,

**WOORICO PTY LTD**
**per: Eric Woo Director.**