



ACN 064 755 237

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

DATE: 1st February 2005

**LODGEMENT OF SECOND SUPPLEMENTARY PROSPECTUS AND
FURTHER EXTENSION OF CLOSING DATE FOR ENTITLEMENTS ISSUE**

A Second Supplementary Prospectus was today lodged with ASIC and despatched to those shareholders entitled to participate in the current Entitlements Issue.

To give members adequate time to consider the contents of the Second Supplementary Prospectus, the closing date of the Company's Entitlements Issue has been extended to Tuesday 15th February 2005.

The expected date of despatch of transaction confirmation statements will be Wednesday 23rd February 2005.

A copy of the Second Supplementary Prospectus is attached.

**JOHN WILSON
Company Secretary**

CARDIA TECHNOLOGIES LTD

REGISTERED OFFICE

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CARDIA TECHNOLOGIES LIMITED

(ACN 064 755 237)

Second Supplementary Prospectus in relation to a Prospectus dated 17 December 2004 lodged with Australian Securities and Investments Commission ("ASIC") ("the Original Prospectus") on that date in respect of an entitlements issue of ordinary shares at an issue price of \$0.07 (7 cents) per share on the basis of one (1) new share for every ten (10) shares held on the record date and on the basis that for every two (2) new shares subscribed for applicants will be granted one (1) free option to acquire an ordinary share exercisable at \$0.10 (10 cents) up to 5.00pm (AEST) on 31 December 2007.

To give members adequate time to consider the contents of this Second Supplementary Prospectus, the Closing Date of the Issue has been extended to 5 PM (AEST) on Tuesday 15 February 2004

THE ISSUE IS FULLY UNDERWRITTEN BY TRAYBURN PTY LTD

This is an important document that should be read in its entirety.

If you do not understand it you should consult your professional advisers without delay. The securities offered by this Prospectus are of a speculative nature.

This Supplementary Prospectus is a second supplementary prospectus to a prospectus dated 17 December 2004 lodged with Australian Securities and Investments Commission ("ASIC") ("the Original Prospectus") on that date. An earlier supplementary prospectus dated 12 January 2005 lodged with ASIC on that date (the "Supplementary Prospectus") has previously been despatched to members. This supplementary prospectus is dated 1 February 2005 and was lodged with ASIC on that date. ASIC take no responsibility for the contents of this Prospectus.

The purpose of this supplementary prospectus is to expand information disclosed in the Original Prospectus, particularly in relation to director's details, and to expand information disclosed in the Supplementary Prospectus in relation to the transactions with Sinopec and PetroChina and to detail use of funds and the effect of the Issue on the Company in more detail.

The following additional information is disclosed in relation to Mr Yue Sheng Fu, a director of the Company.

Mr Fu is a major shareholder in Cardia through his controlled entity, Tony Technology (Holding) Limited. Mr Fu's primary business activities are focused on activities in Hong Kong and the People's Republic of China ("PRC") through an unlisted company, Tongli Enterprises Development Co., Ltd, which is a high-technology based enterprise specialising in the production of rare earth permanent magnetic materials and devices made therefrom. The products manufactured are used widely in the fields of electronic sonic equipment, micro motor equipment, computers, medical equipment, integrated tools, toys and other products. Mr Fu has wide experience in carrying on business in and with PRC, which experience is believed by the Board to have potential to provide ongoing benefits to the Company from time to time. As a consequence of Cardia's policy of divestment of investments, Mr Fu's company is also a significant shareholder in A-Cap Resources Limited (listed on Stock Exchange of Newcastle Limited) and of Dia-B Tech Limited (listed on ASX).

Information in relation to Mr Fu was disclosed to the market at the time of his appointment as a director.

The following additional information is disclosed in relation to Mr Peter Pena, a director of the Company.

Mr Pena is a corporate lawyer with a Masters Degree from Sydney University. He specialises in commercial and international business law and, after practising for a number of years in Australia, is now the principal of a legal practice in Port Moresby. He has been a director of Cardia Technologies Ltd since 1998.

This information has previously been disclosed to Cardia members.

The information disclosed in the Supplementary Prospectus in relation to PetroChina Company Ltd is expanded by the inclusion of the following sentence at the end of the first paragraph under "(1) Carwash water re-use and recycling application":

The estimated cost of carrying out the required trial (using existing equipment and componentry: and excluding the cost thereof) is approximately A\$10,000: which is not regarded by the Directors as a material expenditure. However if the results of the trial are satisfactory to PSSC, then Aquenox would expect that its water recycling systems would be able to be sold through the PSSC network of gas stations.

The information disclosed in the Supplementary Prospectus in relation to Sinopec Group Developments is expanded by the inclusion of the following paragraph at the end thereof:

As disclosed in the annual report for the Company for the year ended 30 June 2004 and as disclosed in an announcement made to ASX on 28 September 2004 the agreement with Sinopec Jiangnan Petroleum Administration Bureau ("JPAB") in relation to JPMP as referred to in the Supplementary Prospectus relates to the establishment of a joint venture company under PRC law. Under that agreement it is proposed that the assets of JPMP will be transferred to a new joint venture company at a value of 14.7 million RMB (subject to independent valuation) and that Aquenox will contribute 15.3 million

RMB in capital with the capital of the joint venture company being owned as to 49% by JPAB and 51% by Aquenox based on the above assumed contributions.

The establishment of the joint venture is subject to due diligence and, as necessary, shareholder approval: it is also subject to independent valuation in relation to the assets of JPMP and to the requirements of PRC law and Australian law. The agreement is further subject to the entering into of binding agreements and as such does not constitute a binding obligation of either party at present but constitutes a frame work for the implementation of the proposal contained therein. Save that the Company or one of its subsidiaries will spend an amount estimated at \$20,000 on due diligence in relation thereto, none of the funds to be raised in the Issue will be applied to this transaction which will only be implemented if:

- (a) the board of Cardia approves the transaction after review of due diligence;
- (b) the requirements of PRC and Australian law are fully complied with;
- (c) due diligence is satisfactory (including independent valuations of the assets of JPMP);
- (d) any requisite shareholder approval (of the members of the Company) is received;
- (e) the Company is able to raise funds to meet its prospective obligations thereunder: which obligations will arise if the joint venture company is established under PRC law (which has not yet occurred and which may not occur). Those funds may be able to be raised either by way of a further capital raising, by sell-off by the Company of various of its investments or by introduction of a third party to fund the Company's obligations. No determination as to whether the project will proceed, (or if it does), how it will be funded can be made at this stage as due diligence is still in progress.

Importantly, however, no funds to be raised from the Issue will be applied to this transaction other than for the funding of the requisite due diligence which will be carried out by Aquenox in the ordinary course of Aquenox's business.

If this transaction proceeds to completion and the joint venture company is established (and funded) then it is contemplated that the supply of any water recycling systems to PSSC or any other customers in PRC will be assumed by that joint venture company and they will not proceed to be made under the co-operation agreement between Aquenox and PSSC.

If this transaction does not proceed to completion then, assuming a satisfactory result from the trial under the agreement between Aquenox and PSSC, future sales (if any) of the Company's water recycling systems within the PRC will be made to PSSC under Aquenox's agreement with that company.

The completion or otherwise of the agreement with JPAB or the completion of the agreement with PSSC will not be affected by the result of the Issue or by the application of funds other than to the extent that the application of funds to be raised will, absent extraneous or unusual circumstances, enable the Company and its subsidiaries to continue to operate.

Clause 6 of the Prospectus entitled "Effect of the Issue on the Company" is amended by the insertion of an additional clause 6.3 immediately following the existing clause 6.2 as follows:

- 6.3 The funds raised by the Issue will be applied:
- (a) as to approximately \$581,528 as working capital to meet the ongoing operational costs of the Company's subsidiary, Aquenox Pty Ltd, for its Australian operations. These funds will be applied to meet expenditures incurred in the ordinary course of business: including the application of approximately A\$20,000 (as estimated by the Board) in conducting due diligence in relation to the agreement with the Sinopec subsidiary, Jiangnan Petroleum Machinery Plant Company (defined in the supplementary prospectus as "JPMP"). None of these funds are proposed to be applied for any expenditure in relation to any specific transactions. The primary effect of this expenditure will be to enable Aquenox Pty Ltd to continue operations in its ordinary course of business in Australia for a period estimated as being up to end December 2005. Although sales of Aquenox's water recycling system

have commenced in Australia and PRC, the budgeted expenditure of this amount assumes no revenue from sales during the period.

- (b) as to approximately \$268,224 as working capital to meet the ongoing operational costs of the Aquenox Pty Ltd's wholly-owned subsidiaries in Hong Kong and PRC. Again, these funds will be applied to meet expenditures incurred in the ordinary course of business: including the application of approximately A\$10,000 (as estimated by the Board) in carrying out a trial of a single water recycling system at a gas retail station or outlet in Shanghai owned or controlled by PetroChina Shanghai Sales Co Ltd ("PSSC"). None of these funds are proposed to be applied for any expenditure in relation to any specific transactions. The primary effect of this expenditure of \$268,224 will be to enable Aquenox Pty Ltd's Hong Kong and PRC subsidiaries to continue operations in their ordinary course of business in Australia for a period estimated as being up to end December 2005. The budgeted expenditure of this amount assumes no revenue from sales during the period.
- (c) as to the balance after payment of the costs of the Issue referred to in clause 1.16 of the Prospectus in contributing to the Company's corporate and operating costs in accordance with normal business operations. None of these funds will be applied to any specific transactions.

Overall, the potential effect that the raising of the funds, the subject of the Issue, is likely to have on the Company is to enable it to operate in the ordinary course of business during the 12 month period ended 31 December 2005. Other funds that are expected to contribute to the Company's operating costs during the period will be funds received from R&D tax rebates for the period ended 30 June 2004 (in like manner as previous years) and if required funds from sale of investment assets held by the Company. The Company will, as necessary, require to raise further funds to implement the agreement with JPAB if that is to proceed and may need to raise funds generally from time to time to meet operating expenses or to fund any additional development of its assets or those of its subsidiaries. Members are generally referred to the risk factors detailed in the Original Prospectus.

7. DIRECTORS RESPONSIBILITY STATEMENT

The Directors of the Company report that for the purposes of Section 731 of the Act, they state that they have made all enquiries that were reasonable in the circumstances and have reasonable grounds to believe that any statements by them in this Second Supplementary Prospectus are true and not misleading or deceptive, and that with respect to any other statements made in this Second Supplementary Prospectus by persons other than the Directors, the Directors have made reasonable enquiries and have reasonable grounds to believe that persons making the statement or statements were competent to make such statements, those persons have given the consent required by Section 716(2) of the Act and have not withdrawn that consent before lodgment of this Second Supplementary Prospectus with ASIC. Each Director of the Company consents to the lodgment of this Second Supplementary Prospectus with ASIC, and has not withdrawn that consent prior to this Second Supplementary Prospectus being lodged.

This Second Supplementary Prospectus is prepared on the basis that:

- certain matters may be reasonably expected to be known to professional advisers of the kind with whom applicants may reasonably be expected to consult; and
- information is known to Applicants or their professional advisers by virtue of any Acts or laws of any State or Territory of Australia or the Commonwealth of Australia.

This Second Supplementary Prospectus is dated the 1st day of February 2005.

Signed on behalf of Cardia Technologies Limited

P Volpe
CHAIRMAN