

**TO: COMPANY ANNOUNCEMENTS OFFICE
ASX LIMITED**

DATE: 28th October 2011

NOTICE OF ANNUAL GENERAL MEETING

The Notice of the Annual General Meeting of Cardia Bioplastics Ltd to be held on Tuesday 29th November 2011 together with the accompanying documents will be dispatched to shareholders today. At the same time the 2011 Annual Report will be sent to shareholders who requested it.

The Notice and accompanying documents are attached.

Rekha Bhambhani
Company Secretary

CARDIA BIOPLASTICS LIMITED
(ACN 064 755 237)

NOTICE OF ANNUAL GENERAL MEETING
INCLUDING
PROXY FORM
AND
EXPLANATORY MEMORANDUM

Date of Meeting
Tuesday 29th November 2011

Time of Meeting
9.00am AEST

Place of Meeting
Suite 5, Level 1,
310 Whitehorse Road,
Balwyn, VIC 3103

CARDIA BIOPLASTICS LIMITED

(ACN 064 755 237)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE ANNUAL GENERAL MEETING OF SHAREHOLDERS OF CARDIA BIOPLASTICS LIMITED (ACN 064 755 237) ("CARDIA OR THE COMPANY") WILL BE HELD AT SUITE 5, LEVEL 1, 310 WHITEHORSE ROAD, BALWYN, VICTORIA 3103 IN THE STATE OF VICTORIA ON TUESDAY 29 NOVEMBER 2011 AT 9.00AM (AEST) FOR THE PURPOSES OF TRANSACTING THE FOLLOWING BUSINESS.

The Explanatory Notes and Proxy Form accompanying this Notice of Annual General Meeting are hereby incorporated in and comprise part of this Notice of Annual General Meeting.

BUSINESS

2011 Annual Financial Report

To receive and consider the Annual Financial Report of the Company for the year ended 30 June 2011, comprising the Financial Report, the Directors' Report, and the Audit Report.

NON-BINDING RESOLUTION

To consider, and if thought fit, to pass, with or without amendment, the following non-binding resolution:

Resolution 1: Adoption of Remuneration Report

"That, for the purposes of section 250R (2) of the Corporations Act 2001(Cth) and for all other purposes, the 2011 Remuneration Report as included in the Directors' Report of the Annual Financial Report of the Company for the year ended 30 June 2011 be adopted."

Further details in respect of Resolution 1 are set out in the Explanatory Notes accompanying this Notice of Annual General Meeting.

Voting Exclusion Statement

The Company will disregard any votes cast on Resolution 1 by:

- (a) a member of the key management personnel for the Company or its subsidiaries whose remuneration details are included in the Remuneration Report (or a closely related party of that person), unless that person does so as a proxy appointed by writing that specifies how the proxy is to vote on Resolution 1 and the vote is not cast on behalf of a member of the Key management personnel of the Company or its subsidiaries whose remuneration details are included in the Remuneration Report (or a closely related party of that person); and
- (b) a member of the key management personnel for the Company or its subsidiaries whose remuneration details are not included in the Remuneration Report (or a closely related party of that person) that is appointed as a proxy where the proxy appointment does not specify the way the proxy is to vote on Resolution 1, unless the proxy is the Chairman of the meeting at which Resolution 1 is voted on and the proxy appointment expressly authorises the Chairman to exercise the proxy even if Resolution 1 is connected directly or indirectly with the remuneration of a member of the key management personnel for the Company or its subsidiaries.

ORDINARY RESOLUTIONS

To consider, and if thought fit, to pass, with or without amendment, the following **ordinary resolutions**:

Resolution 2: Re-election of Director- Mr. Chen Yi

"That Mr Chen Yi, a director retiring by rotation in accordance with ASX Listing Rule 14.5 and Clause 5.3 of the Company's Constitution and being eligible, is re-elected as a director of the Company".

Further details in respect of Resolution 2 are set out in the Explanatory Notes accompanying this Notice of Annual General Meeting.

Resolution 3: Approval of the prior issue of options to sub-underwriters

"That, for the purposes of ASX Listing Rule 7.4 and for all other purposes, approval is given for the prior issue of 111,818,714 options each to acquire one (1) ordinary share in the Company exercisable at \$0.015 (1.5 cents) and expiring on 30 June 2012, to sub-underwriters of the Renounceable Rights Issue as described in the Explanatory Notes accompanying this Notice."

Further details in respect of Resolution 3 are set out in the Explanatory Notes accompanying this Notice of Annual General Meeting.

Voting Exclusion Statement

The Company will disregard any votes cast on the Resolution by:

- (a) persons who participated in the issue and persons who obtained a benefit except a benefit solely in the capacity of a holder of ordinary shares,
- (b) an associate of those persons.

However, the Company need not disregard a vote cast on Resolution 3 if it is cast by:

- (a) a person as proxy for a person who is entitled to vote, if the vote is cast in accordance with the directions on the proxy form; or
- (b) the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction of the proxy form to vote as the proxy decides.

Resolution 4: Approval of the prior issue of shares to employees

"That, for the purposes of ASX Listing Rule 7.4 and for all other purposes, approval is given for the prior issue of 6,000,000 fully paid ordinary shares issued at an issue price of \$0.02 (2 cents each) to the following employees of the Company and its subsidiaries in accordance with the terms of their respective employment contracts/ arrangements for the year ended 30th June 2011.

- i. 2,500,000 Ordinary shares issued and allotted to Graeme Ward, General Manager for Cardia Bioplastics (Australia) Pty Ltd in Australia
- ii. 1,000,000 Ordinary shares issued and allotted to Rekha Bhambhani, Company Secretary for Cardia Bioplastics Limited in Australia.
- iii. 2,500,000 Ordinary Shares to Muhammad Iqbal bin Noorul Huq, Business Development Manager for Cardia Bioplastics Malaysia Sdn Bhd in Malaysia.

Further details in respect of Resolution 4 are set out in the Explanatory Notes accompanying this Notice of Annual General Meeting.

Voting Exclusion Statement

The Company will disregard any votes cast on the resolution by any of the persons named in the resolution and any associate of any of them.

However, the Company will not disregard a vote cast on Resolution 4 if it is cast by:

- (a) a person as proxy for a person who is entitled to vote, if the vote is cast in accordance with the directions on the proxy form; or
- (b) the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction of the proxy form to vote as the proxy decides.

Resolution 5: Approval of the issue of shares to employees for 2012 financial year

"That, for the purpose of ASX Listing Rule 7.1 and for all other purposes and in accordance with the terms of their respective contracts of employment a total of 3,581,250 fully paid shares in the capital of the Company be issued and allotted to the following employees of the Company and/or its subsidiaries:

- (i) 300,000 ordinary shares to be issued and allotted at an issue price of \$0.05 (5 cents each) to Alex Fernando, Chief Operating Officer for Cardia Bioplastics (Australia) Pty Ltd in Australia;
- (ii) 3,281,250 ordinary shares to be issued and allotted at an issue price of \$0.008 (0.8 cents) to Graeme Ward, General Manager for Cardia Bioplastics (Australia) Pty Ltd in Australia.

with such shares to be free from restriction and freely tradeable with effect from the date of issue."

Further details in respect of Resolution 5 are set out in the Explanatory Notes accompanying this Notice of Annual General Meeting.

Voting Exclusion Statement

The Company will disregard any votes cast on the resolution by any of the persons named in the resolution and any associate of any of them.

However, the Company will not disregard a vote cast on Resolution 5 if it is cast by:

- (a) a person as proxy for a person who is entitled to vote, if the vote is cast in accordance with the directions on the proxy form; or
- (b) the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction of the proxy form to vote as the proxy decides.

Resolution 6: Adoption of new Employee Share Option Plan

"That, for the purposes of Exception 9 of ASX Listing Rule 7.2 and for all other purposes, approval is given for the Company to issue options to subscribe for fully paid ordinary shares in the Company to eligible employees under its Employee Share Option Plan on the terms and conditions set out in the Explanatory Notes accompanying this Notice"

Further details in respect of Resolution 6 are set out in the Explanatory Notes accompanying this Notice of 2011 Annual General Meeting.

SPECIAL RESOLUTION

To consider, and if thought fit, to pass, with or without amendment, the following **special resolution**:

Resolution 7: Adoption of new Constitution

"That, in accordance with section 136(2) of the Corporations Act and for all other purposes, the Company adopts a new Constitution in the form tabled at the Meeting."

PROXIES

Appointing a proxy

Members are entitled to appoint up to two proxies to act generally at the Annual General Meeting on their behalf, and to vote in accordance with their directions on the Proxy Form. A proxy need not be a Member. A personalised Proxy Form is attached to this Notice of Annual General Meeting.

Where two proxies are appointed, each proxy can be appointed to represent a specified proportion or number of the votes of the member. If no number or proportion of votes is specified, each proxy may exercise half of the member's votes. Neither proxy is entitled to vote on a show of hands if more than one proxy attends the Annual General Meeting.

If you appoint a proxy, the Company encourages you to direct your proxy how to vote on each resolution by making the appropriate boxes on the Proxy Form.

Completed Proxy Forms (together with any authority under which the Proxy Form was signed, or a certified copy of the authority) must be returned by 9.00 am on 27th November 2011.

- by mail to Share Registry – Advanced Share Registry, PO Box 1156, Nedlands, Western Australia -6909
- personally to Share Registry-Advanced Share Registry, 150 Stirling Highway, Nedlands, Western Australia-6009
- by facsimile to + 61 (08) 93897871

Further instructions are on the reverse of the Proxy Form.

Undirected proxies

Where permitted, the Chairman of the Annual General Meeting will vote undirected proxies in favour of all items of business. This includes Resolution 1 on the basis that the Proxy Form expressly authorises the Chairman to vote undirected proxies even if the resolution is connected directly or indirectly with the remuneration of a Director. **Accordingly, if you want to vote against any of the items of business, you should direct your proxy how to vote in respect of that resolution.**

If you appoint a Director (other than the Chairman of the meeting), or any of the Company's other key management personnel or a closely related party of that person, as your proxy and do not direct your proxy how to vote on Resolution 1, the proxy will not be permitted to vote your proxy on that resolution. **Accordingly, if you want your vote to be counted on that resolution, you should direct your proxy how to vote in respect of it.**

Corporate representation

A corporation which is a member, or which has been appointed a proxy, may appoint an individual to act as a representative to vote at the Annual General Meeting. The appointment must comply with section 250D of the Corporation Act. The representative should bring to the Annual General Meeting evidence of his or her appointment unless it has previously been provided to the Share Registry.

VOTING EXCLUSION

Where a voting exclusion applies, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the Annual General 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.

ENTITLEMENT TO ATTEND AND VOTE AT THE ANNUAL GENERAL MEETING

All members may attend the Annual General Meeting. The Directors have determined that for the purposes of voting at the meeting, shares will be taken to be held by the persons who are registered as the holders of those shares as at 7 pm (AEST) on 25th November 2011.

By Order of the Board of
Cardia Bioplastics Limited

Rekha Bhambhani
Company Secretary
Dated: 27 October 2011

The accompanying Explanatory Notes and Proxy Form including Voting instructions form part of this
Notice of Annual General Meeting

EXPLANATORY NOTES TO NOTICE OF ANNUAL GENERAL MEETING

These Explanatory Notes accompany and form part of the Cardia Bioplastics Limited ("Cardia" or "the Company") Notice of Annual General Meeting to be held on 29th November 2011 at 9.00 am. The Notice of Annual General Meeting should be read together with these Notes.

BUSINESS

2011 ANNUAL FINANCIAL REPORT

To receive and consider the Annual Financial Report of the Company for the year ended 30 June 2011, comprising the Financial Report, the Directors' Report and the Audit Report.

Under the Corporations Act 2001, the directors of a public company that is required to hold an Annual General Meeting must table the financial statements and reports of the Company for the previous year for discussion by the members at that annual general meeting.

Shareholders have been provided with all relevant information concerning the Company's financial statements for the year ended 30 June 2011 in the Annual Report.

A Copy of the Annual Report is enclosed with this Notice for those shareholders who have requested it.

Shareholders should note that the sole purpose of tabling the Financial Report of the Company at the Annual General Meeting is to provide the shareholders with the opportunity to ask questions or discuss matters arising there from at the meeting. At the meeting, a representative of the Company's auditors, William Buck will be available to answer any questions of the members.

It is not the purpose of the meeting that the financial statements be approved, rejected or modified in any way. Further as it is not required by the Corporations Act, no resolution to adopt, receive or consider the statements will be put to the meeting.

NON-BINDING RESOLUTION

Resolution 1: Adoption of Remuneration Report

1.1 General

Pursuant to section 250R(2) of the Corporations Act, at the Annual General Meeting, the Company must propose a resolution that the Remuneration Report be adopted. The vote on this resolution is advisory only and does not bind either the Directors or the Company.

The purpose of Resolution 1 is to lay before the shareholders the Company's Remuneration Report so that shareholders may ask questions about or make comments on the management of the Company in accordance with the requirements of the

Corporations Act and vote on a non-binding resolution to adopt the Remuneration Report for the year ended 30 June 2011.

The Remuneration Report is contained within the 2011 Annual Report. You may access the Annual Report by visiting the Company's website www.cardiabioelectronics.com or you may order a hard copy of the Annual Report by phoning +61 (0) 3 95620122.

Remuneration Report- Two Strikes Rule

Following recent corporate law changes which took effect from 1 July 2011, shareholders have the ability to spill a company's board of directors (**Board Spill**), if the resolution to approve the company's remuneration report receives 25% or more "no" votes at two successive Annual General Meetings of the Company (**Two Strikes Rule**). Accordingly, while this will not result in any Board Spill could potentially occur at a Company's 2012 Annual General Meeting.

1.2 Voting exclusion statement

For the purposes of the voting exclusion statement:

- (a) the "key management personnel" for the Company and its subsidiaries are those persons having authority and responsibility for planning, directing and controlling the activities of the Company and its subsidiaries either directly or indirectly. The Key management personnel for the Company and its subsidiaries during the year ended 30 June 2011 are listed in the Annual Financial Report of the Company; and
- (b) a 'closely related party' of a member of the key management personnel for the Company and its subsidiaries means:
 - (i) a spouse or child of the member;
 - (ii) a child of the member's spouse;
 - (iii) a dependant of the member or of the member's spouse;
 - (iv) anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealings with the entity; or
 - (v) a company the member controls.

The Company will also apply these voting exclusions to persons appointed as attorney by a member to attend and vote at the meeting under a power of attorney- on the basis that references to persons attending and voting are read as references to persons attending and voting and references to an instrument under which the proxy is appointed are read as references to the power of attorney under which the attorney is appointed.

1.3 Directors' Recommendation

The Board recommends that members vote in favour of Resolution 1.

ORDINARY RESOLUTIONS

Resolution 2: Re-election of Director- Mr. Chen Yi

2.1 General

In accordance with ASX Listing Rule 14.5 and Clause 5.3 of the Company's Constitution, at every Annual General Meeting, one-third of the directors (excluding the Managing Director) must retire from office and are eligible for re-election. The directors to retire are those who have been longest in office since their appointment or last re-appointment, or, if the directors have been in office for an equal length of time, by agreement.

Mr. Yi retires by rotation and being eligible for re-election, has consented to be re-elected and presents himself for re-election. He is 31 years of age and was appointed a director in May 2009.

The Directors of Cardia (other than Mr.Yi) recommend that shareholders vote in favour of the re-election of Mr.Yi.

Information about Mr.Yi is contained in the 2011 Annual Report.

2.2 Directors' Remuneration

The Board recommends that members vote in favour of Resolution 2.

Resolution 3: Approval of the prior issue of options to sub-underwriters

3.1 General

Pursuant to a Prospectus lodged with ASIC on 5th May 2011 the Company made a pro-rata renounceable rights issue to shareholders of 447,274,855 new fully paid ordinary shares on the basis of one new share for every two shares held at an issue price of \$0.01 (1 cent) each, together with one (1) free-attaching option for every four (4) shares subscribed for to. Each3.3 option has an exercise price of \$0.015 (1.5 cents) with expiry date of 30 June 2012.

The Company entered into an Underwriting Agreement with Patersons Securities Limited (ACN69 008 896 311)("Patersons") whereby Patersons agreed to fully underwrite any shortfall amount in connection with the Rights Issue.

As part of the Underwriting Agreement with Patersons, the Company agreed that the Underwriter may appoint sub-underwriters to sub-underwrite the Rights Issue Offer at its discretion.

Under the terms of the Underwriting Agreement and as an incentive for sub-underwriters, the Company agreed to issue 111,818,714 Options (Underwriter Options) to the Underwriter (or its nominees) on the same terms and conditions as the New Options as part consideration for underwriting the Rights Issue Offer, on the basis of one Underwriter Option for every four Shares underwritten.

The Rights Issue was completed successfully on 16th June 2011 and the proceeds from the Rights Issue offer are being used by the Company for the purposes set out in the Prospectus dated 5th May 2011. 111,818,714 Underwriter options were issued to sub-underwriters.

3.2 ASX Listing Rule 7.4

ASX Listing Rule 7.4 provides that an issue of securities without approval of shareholders under ASX Listing Rule 7.1 is treated as having been made with approval for the purposes of ASX Listing Rule 7.1 if:

- (a) the issue of securities did not breach ASX Listing Rule 7.1; and
- (b) holders of ordinary securities subsequently approve the issue.

ASX Listing Rule 7.1 provides that without the approval of shareholders the Company must not issue or agree to issue more securities if such issue, when aggregated with the securities issued by the Company during the previous 12 months, would be an amount that would exceed 15% of the issued shares at the commencement of that 12 month period (subject to certain exceptions that are not relevant to the Company's present circumstances).

If Resolution 3 is approved, the 111,818,714 Options issued by the Company to sub-underwriters pursuant to the Rights Issue Offer may be treated by the Company as having been made with approval under ASX Listing Rule 7.1 with the effect that the Company's 15% issuing capacity under ASX Listing Rules will accordingly be refreshed.

3.3 Technical information required by ASX Listing Rule 7.5

In compliance with ASX Listing Rule 7.5, the following information is provided:

- **Number of securities to be issued pursuant to Resolution 3**

111,818,714 Options exercisable at 1.5 cents each with expiry date of 30th June 2012.

- **Issue price of securities**

In accordance with the terms of underwriting agreement, Options were issued free of cost, on the basis of one option for every four new ordinary shares underwritten.

- **Terms of securities**

Ordinary Shares issued and allotted upon exercise of options will rank equally with then quoted ordinary shares of the company.

- **Names of allottees or the basis on which allottees were determined**

The Securities were issued in accordance with terms of Underwriting Agreement with Patersons. On the notification from the Patersons, the securities were issued to sub-underwriters who participated in the Rights Issue Shortfall.

- **Intended use of the funds raised**

Proceeds from Rights Issue are being used for the purposes set out in the Prospectus dated 5th May 2011.

- **Voting Exclusion Statement**

A voting exclusion statement is included in the Notice accompanying the Explanatory Note.

3.4 Directors' Recommendation

The Board recommends that members vote in favour of The Resolution 3.

Resolution 4: Approval of the prior issue of shares to employees

4.1 General

These shares have been issued by way of salary sacrifice to the employees in accordance with the terms and conditions of their respective employment contracts/arrangements.

4.2 ASX Listing Rule 7.4

The sole purpose of putting the resolution to the shareholders for approval is to have the placement approved for the purposes of ASX Listing Rule 7.4 so that the Company's 15% issuing capacity under ASX Listing Rules can be refreshed.

4.3 Technical information required by ASX Listing Rule 7.5

In compliance with ASX Listing Rule 7.5, the following information is provided:

- **Number of securities to be issued pursuant to Resolution 4**

6,000,000 fully paid Ordinary Shares

- **Issue price of securities**

The shares were issued at an issue price of 2 cents each.

- **Terms of securities**

The Securities allotted are ordinary shares which rank pari passu with the other ordinary shares on issue from the date of allotment.

- **Names of allottees or the basis on which allottees were determined**

The name of allottees and basis of allotment are set out in the Resolution 4.

- **Intended use of the funds raised**

No funds were raised by the placement but the value of the consideration paid for the shares reduced the Company's obligation to pay an equivalent amount to the employees.

- **Voting Exclusion Statement**

A voting exclusion statement is included in the Notice accompanying the Explanatory Note.

4.4 Directors' Recommendation

The Board recommends that members vote in favour of Resolution 4.

Resolution 5: Approval of the issue of shares to employees for 2012 financial year

5.1 General

These shares will be issued by way of salary sacrifice to the employees in accordance with the terms and conditions of their respective employment contracts/arrangements for the year ending 30 June 2012.

5.2 ASX Listing Rule 7.1

ASX Listing Rule 7.1 provides that without the approval of shareholders the Company must not issue or agree to issue more securities if such issue, when aggregated with the securities issued by the Company during the previous 12 months, would be an amount that would exceed 15% of the issued shares at the commencement of that 12 month period (subject to certain exceptions that are not relevant to the Company's present circumstances). One circumstance where an issue is not taken into account in the calculation of this 15% threshold is where the

issue has the prior approval of shareholders in general meeting. By obtaining shareholder approval for issue of shares, the Company maintains the ability to issue further securities up to the 15% limit without further shareholder approval to take advantage of opportunities which may arise to raise additional capital.

5.3 ASX Listing Rule 7.3

In compliance with ASX Listing Rule 7.5, the following information is provided:

- The number of Securities to be issued is 3,581,250 fully paid shares to the allottees as set out in the resolution.
- The date by which the entity will issue and allot the shares will be 29th February 2012 which is no later than 3 months after the date of the meeting.
- The price at which the shares are to be allotted is set out in the resolution;
 - 3,281,250 Ordinary Shares at an issue price of 0.8 cents each.
 - 300,000 Ordinary Shares at an issue price of 5 cents each.
- The Securities to be allotted are ordinary shares which rank pari passu with the other ordinary shares on issue from the date of allotment.
- No funds will be raised by the placement but the value of the consideration payable for the shares will reduce the Company's obligation to pay an equivalent amount to the employees.

5.4 Directors' Recommendation

The Board recommends that members vote in favour of Resolution 5.

Resolution 6: Adoption of new Employee Share Option Plan

6.1 General

The Company wishes to establish a employee share option (Plan) to provide an incentive for eligible employees to remain in their employment and attract, reward, retain and motivate new employees. The Plan will be administered by the Board. The Board believe that the Plan is an important initiative of the Company, aimed at further enhancing relationships between the Company and its employees for their long-term mutual benefit. In particular, the Board considers the Plan will develop and increase its employees level of commitment to the Company by more closely aligning the personal objectives of employees with the objectives of the Company.

6.2 ASX Listing Rule 7.2

ASX Listing Rule 7.1 provides that without the approval of shareholders the Company must not issue or agree to issue more equity securities if such issue, when aggregated with the securities issued by the Company during the previous 12 months, would be an amount that would exceed 15% of the issued shares at the commencement of that 12 month period.

Exception 9 of ASX Listing Rule 7.2 provides that ASX Listing Rule 7.1 will not apply in respect of an employee incentive scheme if within 3 years before the date of issue, one of the following occurred:

- a) in the case of a scheme established before the entity was listed, a summary of the terms of the scheme were set out in the prospectus, product disclosure statement or information memorandum; or
- b) holders of ordinary securities have approved the issue of securities under the scheme as an exception to ASX Listing Rule 7.1

If Resolution 6 is approved, any Options granted by the Company pursuant to the Plan may be treated by the Company as having been made with approval under ASX Listing Rule 7.2 Exception 9 with the effect that the Company's 15% issuing capacity under ASX Listing Rule 7.1 will not be affected by the grant of any Options under the Plan.

6.3 Technical information required by ASX Listing Rule 7.2

In compliance with Exception 9 of ASX Listing Rule 7.2, the following information is provided:

- **Summary of the material terms of the Plan**
 - i) The Plan will be administered by the Board.
 - ii) The Board will have full discretion to grant options under the Plan on such terms and conditions as the Board determines, including appropriate vesting conditions on the grant of the options.
 - iii) Only eligible employees will be able to participate in the Plan. Directors of the Company will not be eligible to participate in the Plan.
 - iv) The Board may in its discretion bring forward the vesting date of all options to a date determined by the board in the following circumstances:

- If a person announces an intention to make offers under a takeover bid for Shares in the Company, or initiates a scheme of arrangement, selective reduction of capital or share buyback which, in each case, has an effect similar to a takeover bid for Shares in the Company; or
 - in the Board's absolute discretion, in the event of the death or, Permanent Disablement of a Participant, on the termination of the participant's employment with the Company as a result of redundancy or on the retirement of the participant after the participant has reached the age of 55 years.
- v) No Options can be offered or issued to any Eligible Person in accordance with the Plan if the total number of shares the subject of Options, when aggregated with:
- the number of shares in the same class which would be issued were each outstanding offer or invitation or option to acquire unissued shares in the Company, being an offer or invitation made or option acquired pursuant to the Plan or any other employee or executive share plan extended only to Eligible Persons, to be accepted or exercised (as the case may be); and
 - the number of shares in the same class issued during the previous 5 years pursuant to the Plan or any other employee or executive share plan extended only to Eligible Persons,
- would exceed 5%** of the total number of issued shares in the Company as at the time of the proposed offer or issue, but disregarding any offer made, Option acquired or share issued by way of or as a result of:
- i) an offer that did not need disclosure to investors because of section 708 of the Corporations Act;
 - ii) an offer to a person situated at the time of receipt of the offer outside Australia; or
 - iii) an offer made under a prospectus or other disclosure document.
- vi) The Board may suspend or terminate the operation of the Plan at any time.

- **Number of securities issued under the scheme since the date of last approval**

NIL

- **Voting Exclusion Statement**

No Director is entitled to participate in the Plan. Therefore no Voting Exclusion Statement is required.

6.4 Directors' Recommendations

The Board recommends that members vote in favour of Resolution 6.

SPECIAL RESOLUTION

Resolution 7: Adoption of new Constitution

7.1 General

The Company's Constitution is the major source of the rules governing its internal management, administration and corporate governance.

Resolution 6 seeks Shareholder approval to repeal the existing Constitution of the Company and replace it with a new Constitution.

The Company's existing Constitution was adopted in 1999, there have been substantial changes to the Corporations Act 2001, the ASX Listing Rules and other relevant statutes, regulations and policies.

The purpose of this Special Resolution is to adopt a New Constitution to ensure that the Constitution of the Company reflects current corporate practice and is consistent with the current legislative and regulatory requirements in Australia (the New Constitution)

It should be noted that, while the Constitution is new, its adoption will not result in any material changes to the rights or obligations of the Shareholders.

A copy of the proposed Constitution can be obtained from the Company Secretary by telephoning (03) 95620122.

A copy of the proposed Constitution will be available at the Meeting.

7.2 Why is Shareholder approval required?

Section 136(2) of the Corporation Act requires that the adoption of a new Constitution must be approved by a special resolution of the Shareholders of the Company.

Resolution 7 is a special resolution and require approval of 75% of the votes cast by Shareholders of the Company.

If approved by Shareholders, the New Constitution will be adopted (and the current Constitution will be repealed) with effect from the close of this Annual General Meeting.

The key provisions of the New Constitution follow:

Below is a summary of the New Constitution

A summary of the key provisions of the proposed New Constitution is set out below. The Summary is not intended to be exhaustive of all the changes effected by the adoption of the New Constitution.

The New Constitution is subject to the Listing Rules in all respects at any time that the Company is listed on ASX.

Voting Rights

At a General Meeting each Shareholder present in person or as a proxy, representative or attorney has one vote on a show of hands and one vote for each fully paid share held on a poll.

Voting at any general meeting of Shareholders is by a show of hands unless a poll is effectively demanded (either before the vote is taken, or before or immediately after the declaration of the result of the show of hands) and that demand is not withdrawn.

The quorum required for a meeting of Shareholders is three members present in person or by proxy, attorney or representative of a Shareholder.

General Meeting and notices

Each shareholder is entitled to receive notice of, and to attend and vote at, General Meetings of the Company, and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution, or the Corporation Act or the Listing Rules.

Under the Corporation Act, a notice must currently be provided to the shareholders of a listed entity at least 28 days in advance of a meeting.

Dividends

Subject to the Corporations Act and the Rights of any preference shareholders and to the rights of the holders of any shares created or raised under any special arrangements as to dividend, the dividend as declared shall be payable on all shares according to the proportion that the amount paid (not credited) is to the total amounts paid and payable (excluding the amounts credited) in respect of such shares.

Further issues of shares and options

Subject to any restrictions on the allotment of shares imposed by the Corporations Act, the Listing Rules or any special rights of the holders of shares or a class of shares, the allotment and issue of shares is under the control of the Directors, who may issue and cancel shares on such term and conditions as they see fit.

In addition, the Board has the power to grant to any person an option over unissued shares or pre-emptive rights during such time and for such consideration as it determines.

Transfer of Shares

Subject to the Listing Rules, Shares may be transferred electronically by a proper transfer effected in accordance with the ASTC Settlement Rules or by any other method of transfer

that is required or permitted by the Corporations Act and the Listing Rules.

Holding Locks

The Directors

- may, if the Listing Rules permit the Company to do so; and
- must, if the Listing Rules require the Company to do so (or if the transfer is in breach of the Listing Rules or any restriction agreement between the Company and any shareholder under the Listing Rules), request ASTC to apply a holding lock to prevent a transfer of shares through CHESS or decline to register any transfer of shares.

Winding Up

If the Company is wound up, the liquidator may, with the authority of a special resolution, divide among the Shareholders in kind the whole or any part of the property of the Company, and may for the purposes set a value as the liquidator considers fair upon the property to be so decided, and may determine how the division is to be carried out as between the Shareholders or different classes of Shareholders.

Unmarketable parcels

Subject to the Listing Rules, the Company may sell the shares of a shareholder who holds less than a marketable parcel of shares.

Directors- appointment and removal

The maximum number of Directors is reduced from 10 to 8 under the proposed New Constitution. Shareholders may increase the minimum number and vary the maximum number by resolution in a General Meeting.

The Constitution provides that at each Annual General Meeting:

- One- third of the Directors or, if there number is not a multiple of three, the number nearest to one-third (rounder to the nearest whole number) of the Director;
- Any Director past the third Annual General Meeting following that Director's last appointment or election; or
- Any Director appointed by the Directors to fill a casual vacancy in the preceding year; or
- If none of the above apply, the Director who has served office the longest without re-election, must retire from office or if the directors have been in office for an equal length of time, by agreement.

The Managing Director is exempted from retirement by rotation and a retiring Director is eligible for re-election.

Directors-voting

Questions arising at a meeting of Directors will be decided by a majority vote of Directors present and entitled to vote at the meeting. The Chairman of the meeting has a casting vote in the event that there is an equality of votes unless only two Directors are present and entitled to vote on the question.

Directors- remuneration

The Directors are entitled to receive remuneration for the services they provide, as the Directors decide, but the total amount paid for such services to Non-Executive Directors must not exceed maximum amount as determined by the Company in a General Meeting.

A Director is entitled to reimbursement for reasonable travelling, accommodation and other expenses in attending meetings and carrying out their duties.

Proportional Takeovers

The proposed New Constitution includes provisions dealing with a proportional takeover bid. A proportional takeover bid is one in which the offeror offers to buy only a specified proportion of each shareholder's shares.

The Corporations Act permits a Company to include proportional takeover provisions in its Constitution, but requires these provisions to be renewed every three years by shareholder approval, otherwise they lapse.

The Corporations Act provides that when sending a notice to members on the intention to propose a resolution to insert proportional takeover provisions, the Company must provide certain regulatory information to a shareholder, which is set out below.

The proposed proportional takeover provisions

The proportional takeover provisions in the proposed New Constitution enable the shareholder to decide by means of a majority vote, whether they approve or reject a partial takeover offer for the Company's shares.

A transfer of securities resulting from the acceptance of an offer made under a proportional takeover bid may only be registered if the members pass an approving resolution in relation to the proportional takeover bid to pass, more than 50% of the votes cast on the resolution must be cast in favour of the resolution.

The provisions of the Constitution that apply to the holding of a General Meeting will also apply to the holding of a meeting to vote on a proportional takeover bid.

The reasons for proposing the proportional takeover provisions

As shares in listed companies are often held by a large number of persons, it is possible for a person to gain effective control of the Company while holding less than 50% of its issued voting shares. This can be facilitated by a partial takeover, which allows the offeror to specify the percentage shareholding it wishes to achieve. This can be disadvantageous to shareholders who may not have an opportunity to sell their

shares, even if there is a risk that the takeover may cause a decrease in the Company's share price.

Shareholders may be pressured into selling their shares even if they did not want control of the Company to pass to an offeror because they do not want to take the risk, if the offer is successful, of being left with a minority interest in the Company, the value of their shares decreasing or their shareholding becoming less attractive and therefore more difficult to sell.

Advantages

The advantages of including proportional takeover provisions in the proposed New Constitution are that such provisions:

- enable the directors to formally ascertain the views of the shareholders in respect of the proportional takeover offer;
- give the shareholders the opportunity to study the offer and then vote on the offer;
- permit a majority of shareholders to prevent a partial takeover if they believe control of the Company should not pass to the offeror; and
- if an offer is rejected by the majority of shareholders, it might encourage any further takeover offers to be on terms attractive to a majority of shareholders.

Disadvantages

The potential disadvantages of the proportional takeover provisions are that:

- it may discourage proportional takeovers by making them more difficult to proceed and may reduce any takeover speculation element in the price of the Company's shares on ASX;
- shareholders who would otherwise accept the offer to sell a portion of their shares will be denied the opportunity where a majority reject the offer;
- the proposed procedure introduces an additional formal mechanism to the existing statutory takeover requirements; and
- the provisions are inconsistent with the principle that a share in a public company should be transferable without the consent of the other shareholders.

As at the date of the Notice, none of the Directors are aware of a proposal by a person to acquire or to increase the extent of a substantial interest in the Company.

Other provisions

The other provisions of the proposed New Constitution include changes to the current Constitution that are largely administrative, rather than substantive, in nature and give regard to changes in the Corporations

Act, the ASX Listing Rules and current market practice.

7.3 Directors' Recommendation

The Board recommends that members vote in favour of Resolution 7.

OTHER MATTERS

The Directors are not aware of any other information that:

- (a) is reasonably required by members in order to decide whether or not it is in the Company's interests to pass each of the proposed resolutions; and,
- (b) is known to the Company or to any of its directors;

that has not previously been disclosed either direct to members or generally to the market in accordance with the Company's continuing disclosure obligations under the Listing Rules of ASX.

CARDIA BIOPLASTICS LIMITED
(ACN 064 755 237)

PROXYFORM

All Registry communication to:
Advanced Share Registry Ltd
150 Stirling Highway
Nedlands WA 6009
PO Box 1156
Nedlands WA 6909
Telephone : (08) 9389 8033
Facsimile: (08) 9389 7871
Website: www.advancedshare.com.au

BAR CODE

< SHAREHOLDER'S DETAILS>

XXXX
XXXXX
XXXXX

Sequence No:

STEP 1- Appointment of Proxy

I /We being a member/s of **Cardia Bioplastics Limited** and entitled to attend and vote hereby appoint

☐

the Chairman of the Meeting
(mark with an "X")

OR

If you are not appointing the Chairman of the Meeting as your proxy please write here the full name of the individual or body corporate (excluding the registered Securityholder) you are appointing as your proxy.

Or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the meeting, as my/our proxy at the Annual General Meeting of Cardia Bioplastics Limited to be held at Suite 5, Level 1, 310 Whitehorse Road, Balwyn, VIC 3103 on 29th November 2011 at 9.00 am and at any adjournment of that meeting, to act on my/our behalf and to vote in accordance with the following directions or if no directions have been given, as the proxy sees fit unless I/We have appointed a Director, or any of the Company's other key management personnel or a closely related party of that person, as our proxy.

☐

The Chairman of the meeting is appointed as your proxy or may be appointed by default, and you do not wish to direct your proxy how to vote, please mark this box. By marking this box, you acknowledge that the Chairman of the meeting may vote as your proxy even if he has an interest in the outcome of the resolution and votes cast by the Chairman of the meeting for those resolutions, other than as proxy holder, will be disregarded because of that interest. **The Chairman will vote all undirected proxies in favour of the resolutions on which the Chairman is permitted to vote, including Resolution 1. Accordingly, if you want to vote against any of the resolutions, you should direct your proxy how to vote.** If you do not mark this box, and you have not directed your proxy how to vote, the Chairman of the meeting will not cast your votes on a resolution if the Chairman has an interest in the outcome of that resolution, and your votes will not be counted in calculating the required majority if a poll is called. Accordingly, if you want your vote to be counted in respect of a resolution, you should direct your proxy how to vote in respect of it.

STEP 2- Voting directions to your Proxy-please mark ☒ to indicate your directions

	For	Against	Abstain *
Resolution 1 To adopt Remuneration Report	☐	☐	☐
Resolution 2 Election of Director- Mr Chen.Yi	☐	☐	☐
Resolution 3 Approval of the prior issue of options to sub-underwriters	☐	☐	☐
Resolution 4 Approval of the prior issue of shares to employees	☐	☐	☐
Resolution 5 Approval of the issue of shares to employees for 2012 FY	☐	☐	☐
Resolution 6 Adoption of new Employee Share Option Plan	☐	☐	☐
Resolution 7 Adoption of new Constitution	☐	☐	☐

*If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

STEP 3- PLEASE SIGN HERE This section must be signed in accordance with the instructions overleaf to enable your directions to be implemented.

Individual or Security holder 1

Sole Director and Company Secretary

Security holder 2

Director

Security holder 3

Director/Company Secretary

Contact Name -----

Contact Daytime Telephone -----

Date / / 2011

Voting and Instructions for Appointment of Proxy:

YOUR VOTE IS IMPORTANT

FOR YOUR VOTE TO BE EFFECTIVE IT MUST BE RECORDED BEFORE 9.00 AM ON 27th NOVEMBER 2011.

TO VOTE BY COMPLETING THE PROXY FORM

STEP 1 Appointment of Proxy

Indicate here who you want to appoint as your Proxy

If you wish to appoint the Chairman of the meeting as your proxy, mark the box. If you wish to appoint someone other than the Chairman of the meeting as your proxy please write the full name of that individual or body corporate. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the meeting will be your proxy. A proxy need not be a member of the Company. Do not write the name of the issuer company or the registered member in the space.

Proxy which is a Body Corporate

Where a body corporate is appointed as your proxy, the representative of that body corporate attending the meeting must provide evidence of his or her appointment by providing an "Appointment of Corporate Representative" form prior to admission. An Appointment of Corporate Representative form can be obtained from the company's Share Registry.

Appointment of a Second Proxy

You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company's Share Registry or you may copy this form.

To appoint a second proxy you must:

- (a) complete two Proxy Forms. On each Proxy Form state the percentage of your voting rights or the number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- (b) return both forms together in the same envelope.

STEP 2 Voting Directions to your Proxy

You can tell your Proxy how to vote

To direct your proxy how to vote, place a mark in one of the boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of securities you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses unless you have appointed a Director, or any of the Company's other key management personnel or a closely related party of that person, as your proxy. If you mark more than one box on an item your vote on that item will be invalid.

Where permitted, the Chairman of the meeting will vote undirected proxies in favour of all items of business. This includes Resolution 1 on the basis that the Proxy Form expressly authorises the Chairman to vote all

undirected proxies even if the resolution is connected directly or indirectly with the remuneration of a Director.

Accordingly, if you wish to vote against any of the items of business, you should direct your proxy how to vote in respect of that resolution.

If you appoint a Director (other than the Chairman of the meeting), or any of the Company's other key management personnel or a closely related party of that person, as your proxy and you do not direct your proxy how to vote on Resolution 1, the proxy will not be permitted to vote your proxy on that resolution. Accordingly, if you want your vote to be counted on that resolution, you should direct your proxy how to vote in respect of it.

STEP 3 Sign the Form

The form must be signed as follows:

Individual: This form is to be signed by the member.

Joint Holding: Where the holding is in more than one name, all the members must sign.

Power of Attorney: to sign under a Power of Attorney, you must have already lodged it with the registry. Alternatively, attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: this form must be signed by a Director jointly with either another Director or a Company Secretary. Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. Please indicate the office held by signing in the appropriate place.

STEP 4 Lodgement of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below not later than 48 hours before the commencement of the meeting at 9.00 a.m on 29th November 2011. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxies may be lodged with the Company's registry in any one of the following ways:

BY MAIL – Advanced Share Registry Limited
PO Box 1156,
Nedlands,
Western Australia- 6909

BY FAX- +61 (08) 93897871

IN PERSON – Advanced Share Registry Limited
150 Stirling Highway,
Nedlands
Western Australia -6009

Attending the Meeting

If you wish to attend the meeting please bring this form with you to assist registration.

**CARDIA BIOPLASTICS LIMITED
AND ITS CONTROLLED ENTITIES**

ACN 064 755 237

ANNUAL REPORT 2011

	PAGE
CORPORATE DIRECTORY	2
CHAIRMAN'S REPORT	3
DIRECTORS' REPORT	4
AUDITOR'S INDEPENDENCE DECLARATION	18
CORPORATE GOVERNANCE STATEMENT	19
FINANCIAL STATEMENTS	
STATEMENT OF COMPREHENSIVE INCOME	22
STATEMENT OF FINANCIAL POSITION	24
STATEMENT OF CHANGES IN EQUITY	25
STATEMENT OF CASH FLOWS	27
NOTES TO THE FINANCIAL STATEMENTS	28
DIRECTORS' DECLARATION	69
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS	70
SHAREHOLDERS' INFORMATION	72

Directors:	Patrick John Volpe (Chairman) Frank Peter Glatz (Managing Director) John Scheirs Chen Yi
Company Secretary:	Rekha Bhambhani
Registered Office:	Unit18, 35 Dunlop Road, Mulgrave VICTORIA 3170 Telephone (03) 95620122 Facsimile (03) 95620422 Email: r.bhambhani@cardiabioplastics.com
Share Registry:	Advanced Share Registry Limited 150 Stirling Highway, NEDLANDS W.A.-6009 Telephone: +61 8 9389 8033 Facsimile: +61 8 9389 7871
Bankers:	Bank of Melbourne Level 8, 530 Collins Street, MELBOURNE VIC 3000
Auditors:	Level 1, 465 Auburn Road, Hawthorn East, VIC 3142
Lawyers:	Mills Oakley Lawyers St James Building Level 4, 121 William St, MELBOURNE, VIC 3000.
Stock Exchange:	Australian Securities Exchange Level 5, Riverside Centre 123 Eagle Street BRISBANE QLD 4000

On behalf of the Directors of Cardia Bioplastics Limited ("Cardia or the Company") I present the 30 June 2011 Annual Report and Financial Statements.

In 2011, Cardia remained focused on the Bioplastics business and maintained its investment portfolio. There were no activities in its other principal business units in the 2011 financial year.

The Bioplastics business reported a net loss from operations of \$4,060,207 to June 2011, which was in line with net loss for the year ending 30th June 2010, but sales were down for the year by 25% compared to same period last year. The overall operating loss for the 2011 financial year was \$3,325,211 compared to \$5,557,482 in 2010, a 40% reduction.

The September 2011 Quarter showed solid sales growth with sales for July and August 2011 already in the order of \$1m. This confirmed the Board's view that the Bioplastics market whilst representing less than 1% of all plastics, is in a growth trend and is expected to gain momentum as governments, consumers, brand owners and packaging companies around the world shift to reduce their carbon foot print and look to bioplastics to reduce the exposure to oil price volatility typical for conventional plastics.

The Company during the 2011 financial year, continued to invest heavily into the development of bioplastics for the packaging industry which has been the company's strategy since 2009. The Company has raised via equity issues approximately \$6.2m since the 1st of July 2010, in order to fund these development projects and for working capital purposes. As a result Cardia has aligned itself with global brand owners and packaging companies through joint development projects as well as selling to customers directly or through distributors and packaging converters.

As a result of our development projects, global brand owners and packaging companies are starting to show strong interest in changing over to Cardia's bioplastics technology. This was supported when Nestlé internationally endorsed Cardia with preferred status in respect to their renewable and sustainable packaging developments.

Cardia expects its global efforts to be rewarded through accelerated sales commitments in 2012.

During the year the company continued to develop its CO₂S technology after lodging a provisional patent and producing the world's first biodegradable CO₂S bag which was launched in Malaysia.

A wholly owned subsidiary named CO₂S Pty Ltd was established to corporately structure and manage this exciting future bioplastics opportunity.

Several other provisional patents were lodged with the most significant covering multi-layer films and Biohybrid™ foams. Cardia now has 9 patent families with 29 individual provisional patents lodged.

The Company's technology efforts were again recognized in 2011. Cardia received another international award from Frost and Sullivan for Green Excellence in Technology Innovation complimenting previous awards for business excellence from Clean Equity Global and from AUSTCHAM.

In respect to manufacturing, the Company has announced plans to expand its China resin manufacturing plant in Nanjing by the end of 2011. Cardia also entered into a Joint Venture (49% Cardia) in Malaysia for the manufacture of films and carrier bags scheduled to commence in November 2011. Cardia will not require funding the joint venture manufacturing facilities with its partner contributing up to \$5M through equity and non-recourse loans.

Cardia's product portfolio has extended to cover both Biohybrids™ and compostable plastics for flexible films and rigid products for the packaging industries and also certified compostable bags for the organic waste management market. The compostable bags will be used in organic waste management facilities that collect organic food and green waste in compostable bags and process them to usable compost diverted from landfill. In this market, Cardia has aligned itself in Australia with BASF, SULO and SITA and in 2012 Cardia expects to expand this business segment into China and rest of Asia.

In closing, I again thank shareholders for their patience with their investment. Whilst sales acceptance has been slow, your Board believes that the world wants to change to bioplastics and this will benefit Cardia. Our company remains the only ASX-listed company focused on Bioplastics resin and finished goods manufacturing. Cardia is well positioned for global penetration of its bio-resin technology.

The Directors report follows and covers the review of operations for the 2011 financial year.



Pat Volpe
Chairman

The Directors present their report on the consolidated entity consisting of Cardia Bioplastics Limited ("Cardia or the Company") and the entities it controlled ("the Group") at the end of, or during, the year ended 30 June 2011.

DIRECTORS

The following persons were Directors of Cardia during the whole of the financial year and up to the date of this report:

Patrick John Volpe (Chairman)

Frank Peter Glatz (Managing Director)

John Scheirs

Chen Yi

COMPANY SECRETARY

The Company Secretary is Rekha Bhambhani, B.Com, ACIS, ASA, ACA (ICAI) who was appointed to the position on 10th August 2010. Miss Rekha Bhambhani has been Chief Financial Officer of Cardia for last 5 years and has also worked as an assistant with the previous Company Secretary- Mr John Wilson on company secretarial matters. Prior to that, she has worked in accounting and finance positions in India for more than 8 years.

PRINCIPAL ACTIVITIES

During the year the principal continuing activities of the consolidated entity consisted of developing the company's five business units, namely:

- o Environmental Technology;
- o Biotechnology Medical;
- o Biotechnology Agricultural;
- o Natural Pharmaceuticals;
- o Mineral Exploration.

OPERATING RESULTS

The consolidated loss for the year attributable to the members of the Company was:

	2011 \$	2010 \$
Operating Profit/ (loss) after income tax	(3,323,324)	(5,553,902)
Outside equity interests	(1,887)	(3,580)
Net Profit / (loss) attributable to members of the Company	<u>(3,325,211)</u>	<u>(5,557,482)</u>

DIVIDENDS

The Directors do not recommend the payment of a dividend and no dividends have been paid or declared since the end of the last financial year.

REVIEW OF OPERATIONS

Review of Operations as prepared by the Managing Director-Dr Frank Glatz is as follows:

Business Update

The 2010/11 financial year has seen significant progress for Cardia Bioplastics in sales, commercialization and technical development. Several product launches and technology developments were communicated to the market. This highlights the significant momentum of Cardia's business development and the range of applications in which Cardia materials are now being used.

REVIEW OF OPERATIONS (CONTINUED)

Sales

Sales revenues for 2010/11 were \$1,649,171, down by 25% compared to the last year. The foremost reason for the decrease was the Company's underperformance in its China market segment which contributed to 32% of decrease in overall sales by comparison to the previous year. Whilst the commercialization of products in the other countries slowed down due to the general economic conditions the Company's sales to all other countries increased by 24% over 2010/11.

Market Launches

The following market launches and communications were conducted in the 2010/11 financial year and up to the date of this Report.

F R O S T  S U L L I V A N



Asia Pacific Frost & Sullivan Green Excellence in Technology Innovation Award

The global technology and growth consultancy, Frost & Sullivan, announced Cardia as the recipient of their "2011 Asia Pacific Frost & Sullivan Green Excellence in Technology Innovation Award" for Eco-Materials. The Frost & Sullivan press release is available on Cardia's website.

Cardia Bioplastics and Jokey Plastik cooperate on sustainable Packaging

Cardia Bioplastics and Jokey Plastik announced their cooperation on sustainable packaging systems for the international filling industry at the Interpack 2011. Jokey Plastik presented their new range of buckets and containers made with Cardia Biohybrid™ technology that meet highest packaging performance standards. The Jokey Plastik press release is available on Cardia's website.



Wipak launches sustainable food packaging films using Cardia Biohybrid™ technology

Wipak, a leading global supplier of quality packaging films, has released their new range of sustainable food packaging films using Cardia Biohybrid™ patented technology. Wipak presented these novel films at the world's leading packaging trade fair, Interpack 2011, in Dusseldorf, Germany. The Wipak press release is available on Cardia's website.



Stellar Films launches sustainable personal care films using Cardia Biohybrid™ technology

Melbourne-based manufacturer Stellar Films has released their new range of sustainable films using Cardia Biohybrid™ patented technology for the personal care and medical products industry. The new range of films meets the highest performance standards and displays a unique satin feel. Stellar Films presented these novel films at the world's leading nonwovens trade fair, INDEX 11, in Geneva, Switzerland. The Stellar Films press release is available on Cardia's website.



Cardia Bioplastics Launches Range of Certified Compostable Bags

Cardia Bioplastics announced the launch of its extensive range of certified compostable bag products that will be sold direct to the public or via authorised distributors in Australia and New Zealand. The new product range was launched at Auspack Plus 2011, the leading trade fair of packaging, processing and plastics technology in Australasia. The Cardia Compostable bag range press release is available on Cardia's website.



Cardia Bioplastics appoints Plastribution as distributor for the UK

Plastribution, the UK's leading plastics distribution company, has been appointed by Cardia Bioplastics to provide its comprehensive range of Bioplastics resins to the UK packaging and plastic products industries. The Plastribution press release is available on Cardia's website.



Cardia Bioplastics and Wesco China announce exclusive distributorship for Cardia's "next generation" plastics in China

Cardia Bioplastics announced the appointment of China's leading plastics distribution company Wesco China as its exclusive distributor for China. Wesco is a Joint Venture with Sasol Limited, the leading South African petrochemical company. Wesco will distribute Cardia's portfolio of Biohybrid™ resins derived from sustainable resources throughout China. The Wesco China press release is available on Cardia's website.

CO₂Starch Pty Ltd

Cardia sets up subsidiary to commercialise novel CO₂S™ technology

Cardia Bioplastics announced that it has established a 100% subsidiary "CO₂Starch Pty Ltd". This vehicle will be used to commercialise the company's patented novel CO₂ polymer - starch blending technology. CO₂Starch Pty Ltd will hold all the intellectual property and patents and will serve as the platform for the development and commercialization of a family of CO₂-based polymers. The CO₂Starch Pty Ltd press release is available on Cardia's website.



Australia's Channel 7 News Report on the use of Cardia compostable bags in fresh food markets

Australia's Channel 7 News reported on the use of Cardia Compostable bags in Fresh Food Markets. Epping Village Market is the first to adopt the bags locally, while customers already using the bags include McDonald's, Japan; Seven-Eleven, China; local councils in Brisbane and Sydney; and KFC, South Australia. The Channel 7 News press release is available on Cardia's website.



Cardia Bioplastics appoints Eco Ventures do Brasil as Exclusive Distributor for Brazil

Cardia Bioplastics has appointed Brazil's leading sustainable packaging company as its exclusive distributor for Brazil. Eco Ventures Do Brasil will distribute Cardia's portfolio of Biohybrid™ and compostable resins derived from sustainable resources in Brazil. The Eco Ventures Do Brasil press release is available on Cardia's website.



Cardia Bioplastics announces collaboration with Nestlé to reduce environmental impact of packaging

Cardia Bioplastics announced its collaboration with Nestlé S.A., the largest Fast Moving Consumer Goods company in the world, to reduce the environmental impact of packaging. Cardia Bioplastics Managing Director Dr Frank Glatz said: "Collaborating with Nestlé presents an exciting opportunity to develop high performance packaging with lower environmental impact. In addition to offering a product with beneficial environmental profile and full food safety compliance, delivering superior packaging performance through the product life cycle is a key criterion for success." The Nestlé press release is available on Cardia's website.



Cardia Bioplastics and RNZ Green Bio partner to enter the Malaysian packaging

Cardia Bioplastics and RNZ Green Bio signed Heads of Agreement to establish a new Malaysian entity, Cardia Bioplastics Malaysia Manufacturing, to manufacture finished bioplastics products. The relationship between Cardia Bioplastics and RNZ Green Bio was announced by the Malaysian Minister of Energy, Green Technology and Water, YB Dato Sri Peter Chin Fah Kui, at the Malaysian National Utilities Summit 2010 in Kuala Lumpur. The CBMM contact press release is available on Cardia's website.



Cardia Bioplastics biodegradable bag made from CO₂ emissions

Cardia Bioplastics announced development of next generation CO₂S™ technology and production of a world's first biodegradable plastic bag created from a blend of CO₂ emissions and starch. The CO₂S™ press release is available on Cardia's website.



Food contact breakthrough for Cardia Biohybrid™ injection moulded products

Cardia Bioplastics received European and USA food contact certification for injection moulded products made from its Cardia Biohybrid™ technology. The breakthrough will provide Cardia Bioplastics with an expanded market opportunity into food packaging applications. Every day food packaging items made from its Cardia Biohybrid™ technology like containers, closures, tubes, tubs and bottles can now be offered by Cardia's customers. The food contact press release is available on Cardia's website.



Cardia Bioplastics signs new China supply deal

Cardia Bioplastics signed a supply and licensing agreement for certified compostable packaging with a Chinese bag manufacturing company. The bag products made from Cardia Compostable technology will be exported to the Chinese company's local and international client base. The China bag company supply press release is available on Cardia's website.



Cardia signs compostable packaging supply contract for American market

Cardia Bioplastics signed an international supply and licensing agreement, on confidential terms, with a United States packaging supplier. Cardia will manufacture and supply a range of its sustainable packaging products under a joint branding license. The USA supply press release is available on Cardia's website.



Natures Organics selects Cardia Biohybrid™ sustainable packaging technology

Leading Australian manufacturer of naturally based household and personal care products Natures Organics has selected Cardia Biohybrid™ sustainable packaging technology to be used across its "Earth choice" and "Purity" laundry care and "Organic Care" body care product packaging. The Natures Organics press release is available on Cardia's website.



Cardia Bioplastics and SULO collaborate

Cardia and SULO collaborate in household food waste recycling solutions. Cardia will provide SULO, Australia's leading supplier of waste containment products with certified compostable bags enabling SULO to offer fully integrated organic waste diversion services to local governments. The SULO press release is available on Cardia's website.

Advances in Cardia Bioplastics Commercialisation

Cardia delivered solid progress during the 2010/11 financial year moving several of its projects with global packaging producers and users towards commercialisation. Initial sales have already been achieved with the large packaging companies and brand owners currently at "in-market" validation stage. As these targeted business development activities move forward to market launch and ramp-up stage, it is expected that they will drive Cardia's future business success and deliver significant Cardia resin supply contracts over the next 12 months.

Product launch and in-market validation of hygiene packaging products using Cardia Biohybrid™ technology

Cardia's focused development of Biohybrid™ products for the personal care and hygiene industry delivered commercial outcomes in the 2010/11 financial year. Stellar Films launched their new range of sustainable films using Cardia Biohybrid™ technology for the personal care and medical products industry. The new range of films meets the highest performance standards and displays a unique satin feel. In addition to Stellar Films, Cardia received orders for Biohybrid™ films and resin products associated with a further product launch in the large USA personal care market.



Diapers using back sheet films made with Cardia Biohybrid™ technology

A global consumer products company conducted successful in-market validation of Cardia's new range of Biohybrid™ multilayer films for its personal care and hygiene packaging applications. These are the first applications of Cardia's new film technology that provides multilayer films for the hygiene industry with excellent mechanical and processing properties as well as soft touch and high quality printability. As these films passed the very demanding performance requirements of this in-market validation process, this achievement will provide Cardia with significant new market opportunities, extending from commodity packaging to high performance hygiene packaging.

Product performance qualification of Cardia Biohybrid™ shrink wrap films

Several customers in Europe and the Americas tested Cardia Biohybrid™ shrink wrap packaging films and confirmed the product performance in their applications. Shelf life studies in typical retailer supply chains are currently being conducted. This is a key requirement before progressing to in-market validation stage.



Heavy duty shrink wrap films made with Cardia Biohybrid™ Technology

Cardia Biohybrid™ multilayer films for food packaging applications moving towards market launch

A leading European food producer completed successful in-market validation of Cardia's new range of Biohybrid™ multilayer films for their food and cold storage packaging applications. These are the first applications of Cardia's new film technology that provides multilayer films for the food packaging industry with excellent mechanical and processing properties as well as high clarity, high quality printability and fully food contact approved to the demanding European and USA standards. As these films passed the very stringent performance requirements of their in-market validation process, Cardia is provided with significant new market opportunities, extending from commodity to high performance food packaging.

Product performance qualification of Cardia Biohybrid™ packaging films for fruit and fresh produce packaging

One of New Zealand's leading fruit exporters tested Cardia Biohybrid™ packaging films and confirmed the product performance in their fruit and fresh produce packaging applications. Cardia currently works with this company's packaging suppliers to change over their packaging to Biohybrid™ technology.



Fruit packaging products made with Cardia Biohybrid™ Technology

Successful production qualification of rigid packaging products

A key achievement of this year was the successful production qualification of Cardia Biohybrid™ rigid packaging products with a global consumer products company. The in-house production runs performed well and Cardia products achieved production efficiencies at parity with commodity plastic products. The products met stringent food contact requirements and efficiently replaced the current rigid packaging products in these customers' high speed packaging processes. Shelf life studies are currently being conducted. In addition, leading Australian manufacturer of naturally based health, beauty and household cleaning products, Natures Organics, started to change over their packaging for its range of laundry and personal care products to Cardia Biohybrid™ sustainable packaging technology.



Injection moulded closures made with Cardia Biohybrid™ technology, fully food contact approved

Cardia Compostable products approved for use by a large USA composting company

The company made solid progress with its compostable product range and executed initial supply and licensing contracts in the USA market. Several projects focus on the supply of Cardia compostable products to markets where Governments legislate the use of certified compostable bag products. Cardia Compostable products have been approved for use by Cedar Grove, a large USA composting company. Product approval and composting validations are critical requirements for Cardia's market entry into the large USA market. Having passed key compostability requirements, Cardia is better positioned to increase its sales of compostable products into the USA market.

Cardia Resin Manufacturing and Film Making

Increasing sales and business development of Cardia Biohybrid™ and compostable resins and finished Cardia Bioproducts for major international brands owners were the key drivers for the company to relocate and expand its manufacturing facility in Nanjing, China. The changeover of Cardia's production was successfully completed in 2010. Cardia's strict production and quality processes at the plant have been recognized with ISO9001 Quality Certification. A photo of the Cardia's resin production facility in Nanjing is shown below.



As a result of the anticipated increase in customer demand over the coming year, the production capacity at the Nanjing factory for Biohybrid™ resin will be expanded to 10,000 tonnes per annum via a capital investment in two more extruders. This expansion will bring the Nanjing facility to full capacity.

Cardia Bioplastics own film and bag production at the Nanjing factory has enabled the Cardia Bioproducts team to win business and better service their global film and bag customers. In order to take the Bioproducts business to the next level, Cardia formed with RNZ Green Bio the Cardia Bioplastics Malaysia Manufacturing Joint Venture for finished bioplastics films and bag products. In addition to Cardia supplying finished films and bags from its own production facilities in Nanjing, China, the new Joint Venture plant will allow Cardia to manufacture and supply finished films and bags also in Malaysia. Cardia will be able to increase its finished goods capacity by 1,500 tonnes from November 2011 when the new production facility commences operation.

As highlighted, Cardia Bioplastics has built significant momentum in its business development and expanded its product reach in 2010/11. This is evidenced by its customer launches, progress with commercialization and technical development outcomes. The outlook for 2011/12 is solid. Commensurate with customer demand, Cardia will expand its resin production capacity in China and its finished films and bag production capacity in Malaysia. The Directors look forward to keeping you updated on Cardia Bioplastics progress. In the interim, please consult our website www.cardiabioplastics.com for further information.

Corporate Events

- Mr. John Wilson, Company Secretary retired on 10th August 2010 and Miss Rekha Bhambhani was appointed as Company Secretary with effect from 10th August 2010.
- On the 22nd of September 2010 Cardia established a 100% owned subsidiary in Malaysia, named Cardia Bioplastics Malaysia Sdn Bhd.
- At the Company's Annual General Meeting held on 29th November 2010 shareholders voted to remove WHK Horwath as auditor of the Company and appoint William Buck as the replacement auditor.
- On the 12 January 2011 Cardia renamed one of its existing subsidiary companies to CO₂Starch Pty Ltd
- Effective 25th January 2011, the Company changed its registered office address from Suite 5.10, Level 5, 737 Burwood Road, Hawthorn VIC 3122 to Unit 18, 35 Dunlop Road, Mulgrave, VIC 3170.
- On 25th March 2011, the Company's American Depositary Receipts began trading on the OTC market's prestigious tier, OTCQX International under OTCQX Code: CDRBY.
- On the 30th of June 2011 581,992,197 options exercisable at 10 cents per option expired. Directors held 102,151,271 of these options which lapsed on the expiry date.

Investments

As at 30th June 2011, the Company held the following material investments:

- **Bioglobal Limited:** 18,780,000 ordinary shares in unlisted entity Bioglobal Ltd, the ownership interest diluted from 18.44% to 17.76% of the issued capital of that Company following placement of 3,915,700 shares during the year.
- **P-Fuel Limited:** Cardia has 5,250,000 ordinary shares (following a 3 for 4 capital reconstruction) representing 5.2% of the issued capital of P-Fuel Limited.

The Company held other investments which were immaterial in value and/or were inactive during the year.

Securities Issued

- During the year, the Company has raised approximately \$6.2 million (net of costs) via two entitlement issues to Shareholders as follows:
 - In October 2010, the Company issued 144,453,122 Ordinary Shares at 1.5 cents each pursuant to the non- renounceable right issue offer to the shareholders. The Right Issue was on 1: 3 basis and has raised \$2,116,833 net of cost.
 - In June 2011, the Company raised \$4,055,190 net of cost from its renounceable rights issue offer to shareholders. The Rights Issue offer entitled the Shareholders' to subscribe for one new share for every two shares held in Cardia at an issue price of 1 cent each with one free attaching new option (exercise price 1.5 cents each with expiry date of 30 June 2012) for every 4 new shares subscribed for. If new option is exercised before its expiry date, the option holder will also be entitled to a piggyback option (exercise price 2 cents each with expiry date of 30 June 2013). On 16th June 2011, the Company issued 447,274,855 Ordinary shares and 223,637,482 Options (30 June 2012) pursuant to the Rights Issue.
 - Following the shareholders' approval in Annual General Meeting held on 29th November 2010, 2,500,000 Ordinary shares at an issue price of 2 cents each were issued to the Director-Mr. Chen Yi in full settlement of his outstanding salary of prior years.
 - On 31st December 2010, 6,000,000 Ordinary Shares at an issue price of 2 cents each were issued to the employees of the Company in accordance with terms of their respective employment contracts or arrangements.

With the above issues, the total numbers of securities on issue as at 30 June 2011 are:

▪ Ordinary Fully paid Shares	1,341,824,564
▪ Options expiring 30 June 2012 (Exercise Price 1.5 cents each)	223,637,482

FINANCIAL POSITION

The net assets of the consolidated entity were \$15,118,517 as at 30 June 2011 compared to \$11,007,402 as at 30 June 2010, an increase of \$4,111,115. This increase has resulted primarily due to the following reasons:

Capital Raisings (net of costs) during the year	\$6.17 M
Valuation of Bioglobal Investments at fair value in accordance with AASB 139. -Refer Note to the Financial statements 12(b)	\$1.90 M
Loss from Operating Activities for the year	(\$4.06)M

The Directors consider the group to be in a stable financial position and able to expand and grow its current operations.

EARNINGS (LOSS) PER SHARE

	2011	2010
	\$	\$
Basic Earnings (Loss) Per Share	(0.0038)	(0.0085)
Diluted Earnings (Loss) Per Share	(0.0038)	(0.0085)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	865,279,488	656,014,234
Weighted average number of ordinary shares and options used in the calculation of diluted earnings per share	865,279,488	656,014,234

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Significant changes in the state of affairs of the consolidated entity during the financial year were as follows:

Share and Option Issues

Shares and Options Issued during the year have been disclosed in "Securities Issued" under "Review of Operations".

AFTER BALANCE DATE EVENTS

Other than the matters discussed below, there has not arisen in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company to affect the operations of the consolidated entity, the results of these operations or the state of affairs of the consolidated entity in subsequent years.

Establishment of Joint Venture Entity

On 11 July 2011 Cardia Bioplastics Limited and RNZ Green Bio Sdn Bhd ("RNZ") announced that the terms and conditions of a joint venture agreement to establish a bioplastics film, printing and bag manufacturing facility in Malaysia had been finalised.

Pursuant to the joint venture agreement, RNZ will contribute Malaysian Ringit (MYR) 15m (A\$ 5m approximately) to maintain a 51% interest in CBMM. Cardia will not provide funding to CBMM, however Cardia will license CBMM with the right to manufacture films and bags using Cardia's patented bioplastics resins, and assist the venture with Cardia Bioplastics management and operational expertise. Cardia and RNZ have equal Board representation on CBMM.

RNZ has contributed an initial cash subscription of MYR 500,000 (A\$150,000) which has been received by CBMM with the balance being facilitated by RNZ through various Equity and Debt Funding for the sum of MYR 14,500,000 (A\$ 4.85m) in which the Debt Funding will be a non recourse loan to CBMM shareholders and Directors and the guarantee will be solely provided by RNZ. The contribution of these funds by RNZ to the joint venture will be commensurate with the timing of equipment and working capital orders placed by CBMM.

The MYR 15m (A\$ 5m) funding by RNZ will be applied to the setup of a finished film, bag and printing facility in one of Malaysia's developing manufacturing hubs. These funds will finance Stages 1 & 2 of the facility and provide working capital for the joint venture. It is expected that Stage 1 will be completed by November 2011 with plant capacity of 1,500 tonnes pa. Stage 2 is expected to be completed by July 2012 and will double that capacity. The Plant will be scalable to 7,000 tonnes pa.

On injecting the full MYR 15m (A\$5m) RNZ will have a 51% equity interest.

Any additional funding will be contributed in accordance with each stakeholder's equity interest.

FUTURE DEVELOPMENTS

Cardia will continue to focus on its bioplastics business whilst at the same time reviewing any new investment opportunities and exploring ways to dispose of all or part of its passive investments. In respect to its bioplastics business, the Company will focus to accelerate its sales. Should the sales expectations be not met, the Company will need additional funds to cover its working capital requirements.

ENVIRONMENTAL ISSUES

The Company's operations are not subject to any significant environmental regulation under the law of the Commonwealth or the States.

INFORMATION ON DIRECTORS

Patrick John Volpe <i>B.Bus(Acc), P.G.(Tax), CPA</i>	Experience:	Executive Director for 16 years
	Chairman for 11 years	
		Background in mining, media, transport, manufacturing, banking and stockbroking with a particular emphasis on corporate restructuring, business acquisitions, investment advising and capital raisings.
	Age:	53
	Special Responsibilities:	Corporate finance and investment, Acquisitions and mergers. Member of Audit & Compliance Committee
Dr Frank Peter Glatz <i>Ph D, M.Sc, MBA</i>	Interest in Shares & Options:	120,333,334 Ordinary Shares
	Directorships held in other Listed Entities:	Botswana Metals Limited (appointed 19 Jan 2007) and was a Director of Pallane Medical Ltd until 27 th March 2006 and A-cap Resources Ltd until 12 th January 2010.
	Experience:	Appointed 1 May 2009 Background in the Fast Moving Consumer Goods (FMCG) companies, plastic industry with particular emphasis on development of new technologies and packaging applications.
	Age:	47
	Special Responsibilities:	As Managing Director is responsible for the general management of the Company and for international marketing.
Dr John Scheirs <i>Ph D, Applied Chemistry</i>	Interest in Shares & Options:	14,962,334 Ordinary Shares 500,000 Options over Ordinary Shares
	Directorships held in other	Has not held a directorship in any other listed entity over the last 3 years
	Experience:	Appointed 16 March 2009 Specialist in plastic recycling and polymer degradation. Author of leading books "Polymer Recycling Science, Technology and Applications" and "Compositional and Failure Analysis of Polymers."
	Age:	45
	Special Responsibilities:	Technical Advisor
	Interest in Shares & Options:	6,592,224 Ordinary Shares
	Directorships held in Other Listed Entities:	Has not held a directorship in any other listed entity over the last 3 years

Chen Yi	Experience:	Appointed 1 May 2009 Background in Sales
	Age:	31
	Special Responsibilities:	The Chinese operations
	Interest in Shares & Options:	18,500,000 Ordinary Shares
	Directorships held in Other Listed Entities:	Has not held a directorship in any other listed entity over the last 3 years

DIRECTORS' MEETINGS

The number of meetings of the Company's Board of Directors and the Audit and Compliance Committee held during the year ended 30 June 2011 and the number of meetings attended by each Director.

Director	Board Meetings		Audit & Compliance Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
P J Volpe	17	16	2	2
F P Glatz	17	17	-	-
J Scheirs	17	17	-	-
Chen Yi	17	17	-	-
Rekha Bhambhani (Company Secretary)	17	17	2	2

REMUNERATION REPORT

Remuneration Policy

The Company's policy for determining the nature and amount of remuneration of board members and senior executives of the Company is as follows:

- The remuneration structure for executive officers, including executive directors, is based on a number of factors, including length of service and particular experience of the individual concerned.
- All key management personnel receive a base salary and superannuation. Fringe Benefits and performance incentives are negotiated with the employees depending upon their duties and responsibilities and their area of expertise.
- Performance Incentives are generally paid once predetermined key performance indicators have been met.
- Incentives are paid in the form of a bonus as a percentage of base salary.

Key management personnel receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits.

Upon retirement, key management personnel are paid employee benefit entitlements accrued to the date of retirement. Termination payments are generally not payable on resignation or dismissal for serious misconduct.

Terms of employment require that the relevant group entity provide the contracted person with a minimum of three months notice prior to termination of the contract. Similarly a contracted person has to provide at least three months notice prior to the termination of their contract. In the instance of serious misconduct the Company can terminate employment at any time.

All remuneration paid to key management personnel is valued at the cost to the company and expensed.

The Board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Board collectively determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, and duties and

accountability. Independent external advice is sought when required. The maximum amount of fees that can be paid to non executive directors is approved by shareholders.

Although no executive options are currently on issue, any options issued in the future and not exercised before or on the date of termination will automatically lapse.

Performance-based Remuneration

The Group seeks to emphasise reward incentives for results and continued commitment to the Group through the provision of incentive payments based on the achievement of revenue targets.

Company Performance, Shareholder Wealth and Directors' and Executives' Remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. To achieve this aim, performance based bonus incentive based on key performance indicators have been introduced.

With the focus of the company's business activities being to expand the Bioplastics business, the Company believes that this policy is effective.

Employment details of members of key management personnel and other executives:

Group Key Management Personnel	Position held as at 30 June 2011 and any change during the year	Contract Details (Duration & Termination)	Proportions of elements of remuneration related to performance	Proportions of elements of remuneration not related to performance
Patrick Volpe	Chairman	No Fixed Term	-	100%
Frank Glatz	Managing Director	12 months contract from 24th April 2011	20%	80%
John Scheirs	Non Executive Director	No Fixed Term	-	100%
Chen Yi	Non Executive Director & General Manager-China Operations	36 months contract from 6th March 2009	-	100%
G Ward	General Manager	24 months contract from 5 th July 2010	-	100%
A Fernando	Chief Operating Officer	No Fixed Term	7%	93%
Chen Chan Ping	Technical Director ,China Operations	36 months contract from 6th March 2009	-	100%
R Bhambhani	Chief Financial Officer & Company Secretary	No Fixed Term Appointed Company Secretary - 10 th August 2010	-	100%

Terms of employment require that the relevant group entity provide the contracted person with a minimum of three months notice prior to termination of contract. Similarly a contracted person has to provide at least three months notice prior to the termination of their contract. In the instance of serious misconduct the Company can terminate employment at any time.

Changes in Directors and Executives subsequent to year-end

There have been no changes subsequent to year end.

Remuneration Details for the year ended 30 June 2011

The following table of benefits and payment details, together with the components of remuneration for each member of the key management personnel of the consolidated group for the financial year.

2011

Name	Short term Benefits		Post Employment	Equity-settled share-based payments	Termination Benefits	Total
	Salary and Fees	Non-monetary benefits	Superannuation	Shares (II)		
	\$	\$	\$	\$	\$	\$
P J Volpe	310,000	-	27,900	-	-	337,900
F P Glatz	267,433	27,809	24,059	-	-	319,300
J Scheirs	50,000	-	4,500	-	-	54,500
Chen Yi (I)	65,420	-	5,071	-	-	70,491
G Ward	132,411	-	11,917	50,000	-	194,328
A Fernando	100,917	14,986	9,083	-	-	124,986
R Bhambhani	76,667	-	6,900	20,000	-	103,567
Chen Chan Ping	57,080	-	6,085	-	-	63,165
	1,059,928	42,795	90,444	70,000	-	1,268,237

(I) Mr. Chen Yi was issued 2,500,000 Ordinary shares at an issue price of 2 cents each towards the settlement of his outstanding salary for prior years. The Share Issue was approved by the Shareholders' in the Annual General Meeting held on 29th November 2010.

(II) Mr. Graeme Ward and M/s.Rekha Bhambhani were issued 2,500,000 and 1,000,000 Ordinary shares respectively at an issue price of 2 cents each in accordance with the terms of their respective employment contract and/or arrangements.

2010

Name	Short term Benefits		Post Employment	Equity-settled share-based payments	Termination Benefits	Total
	Salary and Fees	Non-monetary benefits	Superannuation	Shares		
	\$	\$	\$	\$	\$	\$
P J Volpe	310,000	-	27,900	-	-	337,900
F P Glatz	168,318	24,361	17,623	150,000	-	360,302
J Scheirs	50,000	-	4,500	-	-	54,500
Chen Yi	94,752	-	7,720	-	-	102,472
J Wilson	5,352	-	482	-	-	5,834
A Fernando	100,917	14,964	9,083	15,000	-	139,964
R Bhambhani	51,369	-	4,177	-	-	55,546
Chen Chan Ping	68,910	-	7,720	-	-	76,630
Philip Lee	55,592	-	9,908	-	-	65,500
B Van Den Hoek	-	-	-	-	63,750	63,750
	905,210	39,325	89,113	165,000	63,750	1,262,398

No options over unissued ordinary shares of the Company were granted to Directors during the financial year as part of their remuneration packages.

Cash Bonuses, Performance-related Bonuses

There was no performance related remuneration paid during the year.

Options Issued as part of remuneration for the year ended 30 June 2011.

No options were issued during the year as part of remuneration. For Options held by Directors please refer Note 5- Key Management Personnel.

OPTIONS

The Company has listed options trading under ASX Code CNNOA. These options are exercisable at 1.5 cents at any time up to 30 June 2012.

At the date of this Report there were 223,637,482 unissued ordinary shares of the Company under option.

INDEMNIFICATION AND INSURANCE OF DIRECTORS & OFFICERS

The Company has agreed to indemnify all the current Directors and Officers of the Company and of its controlled entities against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors and Officers of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The Company agrees to meet the full amount of any such liabilities, including costs and expenses.

The Company has paid an annual premium to insure the Directors' and Officers against liabilities incurred in their respective capacities. Under the policy, details of the premium are confidential.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of court to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

NON-AUDIT SERVICES

During the year the Company did not employ its auditor on assignments additional to their statutory audit duties.

AUDITOR'S INDEPENDENCE DECLARATION

The lead Auditor's Independence Declaration for the year ended 30 June 2011 has been received and can be found on page 18.

This report of the Directors incorporating the Remuneration Report is signed in accordance with a Resolution of the Board of Directors.



Pat Volpe

Director

Dated this 29th day of September 2011

Mulgrave, Victoria



AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF CARDIA BIOPLASTICS LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2011 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

William Buck

William Buck Audit (VIC) Pty Ltd
ABN 59 116 151 136

J.C. Luckins

J.C. Luckins
Director

Dated in Melbourne on this 29th day of September 2011

Sydney
Melbourne
Brisbane
Perth
Adelaide
Auckland

Level 1, 465 Auburn Road, Hawthorn East VIC 3123
PO Box 185, Toorak VIC 3142
Telephone: +61 3 9824 8555 • Facsimile: +61 3 9824 8580
williambuck.com

William Buck is an association of independent firms, each trading under the name of William Buck across Australia and New Zealand with affiliated offices worldwide. Liability limited by a scheme approved under Professional Standards Legislation other than for acts or omissions of financial services licensees.

Praxity
ASSOCIATES
GLOBAL ALLIANCE OF
INDEPENDENT FIRMS

STRATEGIC THINKING | TAILORED ADVICE | INTEGRATED SOLUTIONS

CHARTERED ACCOUNTANTS & ADVISORS

This statement reflects Cardia Bioplastics Limited's corporate governance policies and practices as at 30 June 2011 and which were in place throughout the year.

The Board's philosophy is to adopt practices that are consistent with the best practice recommendations of the ASX Corporate Governance Council and in the best interests of the Company. The governance practices are reviewed regularly.

A description of the Company's main corporate governance practices is set out below.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The Board's role is to govern the Company rather than to manage it. In governing the Company; the Directors must act in the best interests of the Company as a whole. It is the role of senior management to manage the Company in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.

The Board's responsibilities include:

- o Leadership of the organisation
- o Strategy formulation
- o Overseeing planning activities
- o Shareholder liaison
- o Monitoring compliance and risk management
- o Company finances
- o Human resources
- o Remuneration policy

The Board has delegated the responsibility for management of the Company to the Managing Director and senior management who implement the Board's strategies and compliance activities. The Board constantly monitors the performance of the Managing Director and senior management in their undertaking of these duties.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

The Board has been formed so that it has an effective mix of personnel who are committed to discharging their responsibilities and duties, and being of value to the Company. It consists of 4 members, one of whom is non-executive director.

The Constitution requires a minimum number of three Directors. The maximum number of Directors is fixed by the Board but may not be more than 10, unless the members of the Company, in general meeting, resolve otherwise. The names of the Directors, and their qualifications and experience are stated on Pages 13-14 along with the term of office held by each.

There are no Directors on the Board at present that could be classified as 'Independent'. The Board considers, however that given the size and scope of the Company's operations at present, it has the relevant experience in the industry and is appropriately structured to discharge its duties in a manner that is in the best interests of the Company and its Shareholders from a both a long-term strategic and an operational perspective. The number of independent Directors on the Board is likely to increase as the Company develops and the Board believes that it can attract appropriate independent directors with the necessary industry experience.

However, where any Director has a material personal interest in a matter, in accordance with the *Corporations Act 2001*, the Director will not be permitted to be present during discussion of the matter or to vote on it. The enforcement of this requirement aims to ensure that the interest of shareholders, as a whole, is pursued and that neither their interest nor the Director's independence is adversely affected.

The Company believes that at this stage in its development, the most appropriate person for the position of Chairman is an Executive Officer of the Company. The Executive Officer's overall expertise has been crucial to the Company's development and negates any perceived lack of independence.

The Company does not have a Nomination Committee because the Board considers that selection and appointment of Directors is such an important task that it should be the responsibility of the entire Board.

The Board is responsible for evaluating its performance and that of individual Directors and key executives and in doing so may engage independent external advisors if thought appropriate to do so. The Company has not established a formal process to evaluating the performance of the Board, its committees and individual directors, however the performance of the Board, the directors, officers and employees is monitored on a regular basis by the Board, with appropriate feedback and necessary training given to those parties.

Directors collectively or individually have the right to seek independent professional advice at the Company's expense, subject to the prior approval of the Chairman; to assist them to carry out their responsibilities. All advice obtained is made available to the Full Board.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Due to the size of the Company and the resources available to it, the Board does not consider that a formal Code of Conduct for directors and other key executives is appropriate. Rather, it is agreed by the Board that all officers of the Company will act ethically and in the best interests of the Company.

The Company has a Securities Trading Policy that regulates the dealings by directors, officers and employees, in shares, options and other securities issued by the Company.

The policy has been formulated to ensure that directors, officers, employees and consultants who work on a regular basis for the Company are aware of the legal restrictions on trading in company securities while in possession of unpublished price-sensitive information.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

The Executive Chairman and Company Secretary have provided written declarations to the Board confirming that the Company's financial statements present a true and fair view of the Company's financial condition and operational results and are in accordance with the relevant accounting standards.

As the Company is small with a team of 4 Directors, it has not established a series of committees to address specific areas of corporate governance such as risk management, strategic review, operations and remuneration but has established an Audit and Compliance Committee.

The members of the Committee at the date of this report are Patrick Volpe (Chairman) and Rekha Bhambhani (Company Secretary). The Audit and Compliance Committee was established by the Board to give additional assurance regarding the quality and reliability of financial information used by the Board and financial information provided by the Company pursuant to its statutory reporting requirements. The members of the Committee meet formally twice a year and on an adhoc basis as required.

The Board selected the members of the Audit and Compliance Committee on the basis that they are considered to have the most expertise in the area and are therefore not necessarily independent or non-executive directors.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the Australian Securities Exchange ("ASX") as well as communicating with the ASX. In accordance with the ASX's 'Listing Rules' the Company immediately notifies the ASX of information concerning the Company:

1. That a reasonable person would or may expect to have a material effect on the price or value of the Company's securities; and
2. That would, or would be likely to influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

Due to the size of the Company, it achieves compliance with ASX 'Listing Rules' disclosure requirements without the need for formal policies and procedures, however there are specific processes followed by the Board and officers with regard to ensuring the Company complies with its disclosure requirements.

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

Due to the size of the Company, it does not have a formal policy regarding the promotion of effective communications with shareholders and encouraging their participation at general meetings.

The Company respects the rights of its Shareholders, and to facilitate the effective exercise of these rights, the Company is committed to:

1. Communicating effectively with shareholders through ongoing releases to the market via the ASX and the Company's website, and the general meetings of the Company;
2. Giving shareholders ready access to balanced and understandable information about the Company and Corporate Proposals;

3. Making it easy for shareholders to participate in general meetings of the Company; and providing appropriate notice periods and disclosure for general meetings;
4. Requesting the External Auditor to attend the Annual General Meeting and be available to answer shareholder's questions about the conduct of the audit, and the preparation and content of the Auditor's Report.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

The Company has not established formal policies for the oversight and management of material business risks. Due to the size of the Company and the size of the Board, the Board monitors all key areas of the Company's risk management on an ongoing basis and keeps shareholders informed of any changes in the risk profile of the Company.

The Board has delegated the responsibility of designing risk management and internal control systems to the Managing Director and senior management who manage the Company's material business risks and report to the Board on the effectiveness of those systems.

As the Board has responsibility for the monitoring of risk management it has not required a formal report regarding the material risks and whether those risks are managed effectively however the Board believes that the Company is currently effectively communicating its significant and material risks to the Board and its affairs are not of sufficient complexity to justify the implementation of a more formal system for identifying, assessing monitoring and managing risk in the Company.

The Board requires that the Chairman and the Company Secretary provide a written statement that the financial statements of the Company present a true and fair view, in all material aspects, of the financial position and operational results and have been prepared in accordance with Australian Accounting Standards and the Corporations Act. The Board also requires that the Managing Director and Company Secretary provide sufficient assurance that the declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material aspects in relation to financial reporting risks and discloses accordingly.

The declarations have been received by the Board, in accordance with the recommendation of the Corporate Governance Council.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Due to the size of the Company, it has not established a Remuneration Committee and it currently uses independent external consultants to determine the level and components of remuneration for the directors. The Company has four employees. The remuneration paid to executive directors and senior executives is distinguished from that paid to non-executive directors.

Non-Executive directors are paid their fees out of the maximum aggregate amount approved by shareholders for the remuneration of non-executive directors. Non-executive directors do not receive performance based bonuses and do not participate in Equity Schemes of the Company without prior shareholder approval.

Current remuneration details are disclosed on pages 14-17 in the Director's Report.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011

	Notes	Economic Entity		Parent Entity	
		2011	2010	2011	2010
		\$	\$	\$	\$
Continuing Operations					
Sales	2	1,649,171	2,205,817	-	-
Cost of Sales		(1,524,526)	(2,117,905)	-	-
Gross Profit		124,645	87,912	-	-
Other Income	2	216,655	298,396	33,213	114,102
Administrative Expenses		(619,961)	(665,578)	(220,837)	(215,237)
Employment Benefits		(1,583,063)	(1,546,159)	(707,950)	(816,972)
Travel, Marketing & Distribution Expenses		(393,777)	(591,680)	(29,798)	(69,823)
Research & Development Expenses & Patent Costs		(1,322,833)	(958,522)	(26,662)	-
Depreciation & Amortisation		(144,483)	(198,967)	(3,058)	(3,642)
Provision for impairment of receivables		-	-	(1,208)	(2,997,150)
Write Off of Financial Assets		-	(1,144,050)	-	(1,145,150)
Amounts written Off as Bad Debts		-	(60,329)	-	(60,329)
Net Finance Costs		34,601	(46,682)	(268)	33,665
Other Expenses		(371,991)	(460,432)	(209,736)	(210,497)
Loss from operating activities		(4,060,207)	(5,286,092)	(1,166,304)	(5,371,033)
Share of net profit/(loss) of Associates (net of income tax)		-	(354,171)	-	-
Gain on designation of AFS Asset		736,883	-	736,883	-
Loss before income tax	3	(3,323,324)	(5,640,263)	(429,421)	(5,371,033)
Income Tax Expense		-	-	-	-
Loss from continuing operations		(3,323,324)	(5,640,263)	(429,421)	(5,371,033)
Profit/ (Loss) on discontinued operations					
Gain on deconsolidation of subsidiary		-	86,361	-	-
Loss for the period after tax		(3,323,324)	(5,553,902)	(429,421)	(5,371,033)
Other comprehensive income					
Foreign currency translation differences for foreign operations		(61,338)	(174,665)	-	-
Net change in fair value of available for sale financial assets		1,900,853	-	1,900,853	-
Gain on dilution of shareholdings in associate		-	334,478	-	-
Dilution Gain of associate on reclassification to Available for Sale Asset		(970,946)	-	-	-
Cummulative losses previously recognised on Equity Accounted Associate		234,063	-	-	-
Foreign currency exchange movements to Capital Reserve		(10,216)	(768)	-	-
Income tax on other comprehensive income		-	-	-	-
Total comprehensive income for the year		(2,230,908)	(5,394,857)	1,471,432	(5,371,033)
(Loss)/Profit from continuing operations attributable to:					
Members of the Company		(3,325,211)	(5,643,843)	(429,421)	(5,371,033)
Non Controlling Interest		1,887	3,580	-	-
Loss from continuing operations		(3,323,324)	(5,640,263)	(429,421)	(5,371,033)
(Loss)/Profit attributable to :					
Members of the Company		(3,325,211)	(5,557,482)	(429,421)	(5,371,033)
Non Controlling Interest		1,887	3,580	-	-
Loss for the period after tax		(3,323,324)	(5,553,902)	(429,421)	(5,371,033)

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)**Total comprehensive income attributable****to :**

Members of the Company	(2,232,795)	(5,398,437)	1,471,432	(5,371,033)
Non Controlling Interest	1,887	3,580	-	-
Total comprehensive income for the period	(2,230,908)	(5,394,857)	1,471,432	(5,371,033)

Earnings per share

From continuing and discontinued operations

-Basic earnings per share (cents per share) **7(a)** **(0.3843)** (0.8466)-Diluted earnings per share (cents per share) **7(a)** **(0.3843)** (0.8466)

From continuing operations

-Basic earnings per share (cents per share) **7(b)** **(0.3843)** (0.8466)-Diluted earnings per share (cents per share) **7(b)** **(0.3843)** (0.8466)

From discontinuing operations

-Basic earnings per share (cents per share) **7(c)** - (0.010)-Diluted earnings per share (cents per share) **7(c)** - (0.010)*The accompanying notes form part of these financial Statements.*

STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2011

	Notes	ECONOMIC ENTITY		PARENT ENTITY	
		2011	2010	2011	2010
		\$	\$	\$	\$
Current Assets					
Cash and cash equivalents	8	4,154,064	1,718,012	3,546,622	1,264,935
Trade and other receivables	9	690,209	627,759	20,169	53,865
Inventories	10	1,064,645	595,696	-	-
Financial Assets	12	-	80,000	-	80,000
Total Current Assets		5,908,918	3,021,467	3,566,791	1,398,800
Non-Current Assets					
Trade and other receivables	9	-	-	5,375,669	2,321,679
Investments accounted for using the equity method	11	-	916,147	-	179,264
Financial Assets	12	3,027,000	210,000	10,745,954	7,928,954
Plant and Equipment	13	689,988	926,166	4,198	7,255
Intangible Assets	14	6,565,950	6,776,704	-	-
Total Non-Current Assets		10,282,938	8,829,017	16,125,821	10,437,152
Total Assets		16,191,856	11,850,484	19,692,612	11,835,952
Current Liabilities					
Trade and other payables	15	893,239	717,710	112,672	110,829
Short term provisions	16	180,100	125,372	142,643	101,281
Total Current Liabilities		1,073,339	843,082	255,315	212,110
Total Liabilities		1,073,339	843,082	255,315	212,110
Net Assets		15,118,517	11,007,402	19,437,297	11,623,842
Equity					
Issued Capital	17	40,091,115	33,749,092	40,091,115	33,749,092
Reserves	18	1,376,349	1,979,685	1,900,853	1,461,689
Accumulated Losses		(26,406,631)	(24,777,172)	(22,554,671)	(23,586,939)
Parent Entity Interest		15,060,833	10,951,605	19,437,297	11,623,842
Non Controlling Interest		57,684	55,797	-	-
Total Equity		15,118,517	11,007,402	19,437,297	11,623,842

The accompanying notes form part of these financial Statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2011

Economic Entity

	Issued Share Capital	Accumulated Losses	Option Issue Reserve	Foreign Currency Translation Reserve	Revaluation Reserve	Dilution Gain Reserve	Capital Reserve	Non Controlling Interests	Total Equity
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance at 1.7.2009	30,978,621	(19,219,690)	1,461,689	(273,730)	-	636,468	(3,787)	52,217	13,631,788
(Loss)/ Profit for the Year	-	(5,557,482)	-	-	-	-	-	3,580	(5,553,902)
Other Comprehensive income for the year	-	-	-	(174,665)	-	334,478	(768)	-	159,045
Total comprehensive income for the year	-	(5,557,482)	-	(174,665)	-	334,478	(768)	3,580	(5,394,857)
Transactions with owners in their capacity as owners									
Shares/Options issued during the period	2,797,720	-	-	-	-	-	-	-	2,797,720
Cost of Capital	(27,249)	-	-	-	-	-	-	-	(27,249)
Balance at 30.06.2010	33,749,092	(24,777,172)	1,461,689	(448,395)	-	970,946	(4,555)	55,797	11,007,402
Balance at 1.7.2010	33,749,092	(24,777,172)	1,461,689	(448,395)	-	970,946	(4,555)	55,797	11,007,402
(Loss)/Profit for the Year	-	(3,325,211)	-	-	-	-	-	1,887	(3,323,324)
Other Comprehensive income for the year	-	234,063	-	(61,338)	1,900,853	(970,946)	(10,216)	-	1,092,416
Total comprehensive income for the year	-	(3,091,148)	-	(61,338)	1,900,853	(970,946)	(10,216)	1,887	(2,230,908)
Transactions with owners in their capacity as owners									
Shares/Options issued during the period	6,809,671	-	-	-	-	-	-	-	6,809,671
Cost of Capital	(467,648)	-	-	-	-	-	-	-	(467,648)
Expiry of Options	-	1,461,689	(1,461,689)	-	-	-	-	-	-
Balance at 30.06.2011	40,091,115	(26,406,631)	-	(509,733)	1,900,853	-	(14,771)	57,684	15,118,517

The accompanying notes form part of these financial Statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2011

Parent Entity

	Issued Share Capital	Accumulated Losses	Option Issue Reserve	Revaluation Reserve	Total Equity
	\$	\$	\$	\$	\$
Balance at 01.07.2009	30,978,621	(18,215,906)	1,461,689	-	14,224,404
(Loss)/ Profit for the Year	-	(5,371,033)	-	-	(5,371,033)
Other Comprehensive income for the year	-	-	-	-	-
Total comprehensive income for the year	-	(5,371,033)	-	-	(5,371,033)
Transactions with owners in their capacity as owners					
Shares/Options issued during the period	2,797,720	-	-	-	2,797,720
Cost of Capital	(27,249)	-	-	-	(27,249)
Balance at 30.06.2010	33,749,092	(23,586,939)	1,461,689	-	11,623,842
Balance at 01.07.2010	33,749,092	(23,586,939)	1,461,689	-	11,623,842
(Loss)/ Profit for the Year	-	(429,421)	-	-	(429,421)
Other Comprehensive income for the year	-	-	-	1,900,853	1,900,853
Total comprehensive income for the year	-	(429,421)	-	1,900,853	1,471,432
Transactions with owners in their capacity as owners					
Shares/Options issued during the period	6,809,671	-	-	-	6,809,671
Cost of Capital	(467,648)	-	-	-	(467,648)
Expiry of Options	-	1,461,689	(1,461,689)	-	-
Balance at 30.06.2011	40,091,115	(22,554,671)	-	1,900,853	19,437,297

The accompanying notes form part of these financial Statements.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2011

	Notes	ECONOMIC ENTITY		PARENT ENTITY	
		2011	2010	2011	2010
		\$	\$	\$	\$
Cash Flows from Operating Activities					
Receipts from customers (inclusive of goods and services tax)		1,442,365	2,000,823	-	-
Payments to suppliers and employees (inclusive of goods and services tax)		(5,485,561)	(5,791,277)	(1,094,579)	(1,168,936)
Interest received		37,094	25,025	31,421	23,784
Brokerage Received		-	10,500	-	10,500
Research & Development Tax Rebate		169,442	-	-	-
Export Marketing Development Grant received		65,996	91,213	-	-
Net Cash Outflow from Operating Activities	23	(3,770,664)	(3,663,716)	(1,063,158)	(1,134,652)
Cash Flows from Investing Activities					
Purchase of property, plant and equipment		(22,596)	(416,346)	-	(362)
Sale of property, plant and equipment		5,382	-	-	-
Loans to related parties		-	-	(2,907,178)	(2,939,590)
Exploration expenditure		-	(289,133)	-	(289,133)
Acquisition of Financial Assets		-	(210,000)	-	(210,000)
Disposal of cash on deconsolidation of subsidiary		-	(703,935)	-	-
Net Cash Outflow from Investing Activities		(17,214)	(1,619,414)	(2,907,178)	(3,439,085)
Cash Flows from Financing Activities					
Loan repaid by other parties		80,000	601,352	80,000	601,352
Proceeds from issues of ordinary shares and options		6,639,671	2,612,720	6,639,671	2,612,720
Payment of share and options issue costs		(467,648)	(27,249)	(467,648)	(27,249)
Net Cash Inflow from Financing Activities		6,252,023	3,186,823	6,252,023	3,186,823
Net Increase/(Decrease) in Cash and Cash Equivalents Held		2,464,145	(2,096,307)	2,281,687	(1,386,914)
Cash and Cash Equivalents at the Beginning of the Financial Year		1,718,012	3,820,677	1,264,935	2,651,849
Effect of exchange rates on cash holding in foreign currencies		(28,093)	(6,358)	-	-
Cash and Cash Equivalents at the End of the Financial Year	8	4,154,064	1,718,012	3,546,622	1,264,935
Non-Cash Financing and Investing Activities		170,000	185,000	170,000	150,000

The accompanying notes form part of these financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial reporting Standards.

The financial statements cover the economic entity of Cardia Bioplastics Limited and controlled entities, and Cardia Bioplastics Limited as an individual parent entity.

Cardia Bioplastics Limited is a listed public company, incorporated and domiciled in Australia.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

Reporting Basis and Conventions

The accounting policies set out below have been consistently applied to all the years presented.

The financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

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 2011. 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:

- **Establishing greater revenue from its current activities**
As part of the Company's growth strategy, the Company has been extensively working on 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" stage. Whilst no assurance can be given, the Board expects that all or some of these projects will be converted into sales revenue.
- **Being successful in accessing capital**
In June 2011 the Company has raised \$4.5million in capital through a renounceable rights issue to its shareholders. As part of this capital raising, the shareholders were offered free attaching options which can finance the company's minimum capital requirements over the period of 2 years, if exercised. In addition, the Company has the ability to issue shares of up to 15% of issued capital on a non-pro-rata basis in a 12-month period without seeking shareholder approval.
- **Sale of the Company's non-core assets**
The Company's major non core equity investment in Bioglobal Ltd has the potential to be sold.

a. Principles of Consolidation

A controlled entity is any entity controlled by Cardia Bioplastics Limited whereby Cardia Bioplastics Limited has the power to control the financial and operating policies of an entity so as to obtain benefits from its activities. Control will generally exist when the parent entity owns directly or indirectly through subsidiaries more than half of the voting rights of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered. All controlled entities have a June financial year end.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased. A list of controlled entities is contained in Note 19 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Non controlling equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial statements. The non controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

Goodwill

Goodwill is carried at cost less accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

- (i) the consideration transferred;
 - (ii) any non-controlling interest; and
 - (iii) the acquisition date fair value of any previously held equity interest;
- over the acquisition date fair value of net identifiable assets acquired.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements.

Fair value uplifts in the value of pre-existing equity holdings are taken to the statement of comprehensive income. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

The amount of goodwill recognised on acquisition of each subsidiary in which the Group holds less than a 100% interest will depend on the method adopted in measuring the non-controlling interest. The Group can elect in most circumstances to measure the non-controlling interest in the acquiree either at fair value (*full goodwill method*) or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets (*proportionate interest method*). In such circumstances, the Group determines which method to adopt for each acquisition and this is stated in the respective notes to these financial statements disclosing the business combination.

Under the full goodwill method, the fair value of the non-controlling interest is determined using valuation techniques which make the maximum use of market information where available. Under this method, goodwill attributable to the non-controlling interests is recognised in the consolidated financial statements.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is tested for impairment annually and is allocated to the Group's cash-generating units or groups of cash-generating units, representing the lowest level at which goodwill is monitored not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity disposed of.

Changes in the ownership interests in a subsidiary are accounted for as equity transactions and do not affect the carrying values of goodwill.

b. Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantially enacted by the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the statement of comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

c. Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

d. Plant and Equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the economic entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset

Plant and Machinery

Depreciation Rate

13% to 33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income.

e. Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

f. Financial Instruments**Initial recognition and measurement**

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset. (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Finance instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

- a. the amount at which the financial asset or financial liability is measured at initial recognition;
- b. less principal repayments;
- c. plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and
- d. less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

i) Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the statement of comprehensive income in the period in which they arise.

ii) Loans and receivables

Loans and receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

iii) Held-to-maturity investments

These investments have fixed maturities, and it is the group's intention to hold these investments to maturity. Any held-to-maturity investments held by the group are stated at amortised cost using the effective interest rate method.

iv) Available-for-sale financial assets

Available for sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

v) Financial Liabilities

Non-derivative financial liabilities compromising trade and other payables are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At the end of each reporting period, the group assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant or prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognized in the statement of comprehensive income.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

g. Impairments of Assets

At the end of each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset being the higher of the asset's fair value less costs to sell and value in use, is compared to the assets carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the statement of comprehensive income.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

h. Investments in Associates

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting. The equity method of accounting recognised group's share of post-acquisition reserves of its associates.

i. Intangibles**Goodwill**

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Patents and trademarks

Costs incurred in relation to development, registration and maintenance of Patents and trademarks are expensed as and when incurred.

Research and development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j. Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the statement of comprehensive income, except where deferred in other comprehensive income as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the gain or loss is directly recognised in other comprehensive income; otherwise the exchange difference is recognised in the statement of comprehensive income.

Group companies

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- Assets and liabilities are translated at year-end exchange rates prevailing at the end of reporting date.
- Income and expenses are translated at average exchange rates for the period.
- Retained profits are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the statement of financial position. These differences are recognised in the statement of comprehensive income in the period in which the operation is disposed.

k. Employee Benefits

Provision is made for the group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employees benefits payable later than one year have been measured at the present value of the estimated future cash flows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy vesting requirements. Those cashflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cashflows.

Equity-settled compensation

Share-based payments to employees are measured at the fair value of the instruments issued and amortised over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using the Black-Scholes pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

l. Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m. Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities in the statement of financial position.

n. Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

Revenue from royalties is recognised on an accrual basis in accordance with the substance of the relevant agreement.

o. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

p. Government Grants

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating. Grants relating to assets are credited to deferred income at fair value and are credited to the statement of comprehensive income over the expected useful life of the asset on a straight-line basis.

q. Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

r. Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group. No impairment has been recognised in respect of plant and equipment.

Key Estimates- Impairment

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates. No impairment has been recognised in respect of plant and equipment and Intangible assets.

Key Judgements-

There were no other significant key judgments made by the Directors.

s. New Accounting Standards for Application in Future Periods

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods and which the Group has decided not to early adopt. A discussion of those future requirements and their impact on the Group is as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

AASB 9: Financial Instruments (December 2010) (applicable for annual reporting periods commencing on or after 1 January 2013).

This Standard is applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments. The Group has not yet determined any potential impact on the financial statements.

The key changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
- requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

AASB 1053: Application of Tiers of Australian Accounting Standards and AASB 2010–2: Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 & 1052] (applicable for annual reporting periods commencing on or after 1 July 2013).

AASB 1053 establishes a revised differential financial reporting framework consisting of two tiers of financial reporting requirements for those entities preparing general purpose financial statements:

- Tier 1: Australian Accounting Standards; and
- Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 of the framework comprises the recognition, measurement and presentation requirements of Tier 1, but contains significantly fewer disclosure requirements.

The following entities are required to apply Tier 1 reporting requirements (ie full IFRS):

- for-profit private sector entities that have public accountability; and
- the Australian Government and state, territory and local governments.

Since the Group is a for-profit private sector entity that has public accountability, it does not qualify for the reduced disclosure requirements for Tier 2 entities.

AASB 2010–2 makes amendments to Australian Accounting Standards and Interpretations to give effect to the reduced disclosure requirements for Tier 2 entities. It achieves this by specifying the disclosure paragraphs that a Tier 2 entity need not comply with as well as adding specific "RDR" disclosures.

AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

This Standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. The Standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures.

The amendments are not expected to impact the Group.

AASB 2009-14: Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan.

This Standard is not expected to impact the Group.

AASB 2010-4: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13] (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard details numerous non-urgent but necessary changes to Accounting Standards arising from the IASB's annual improvements project. Key changes include:

- clarifying the application of AASB 108 prior to an entity's first Australian Accounting Standards financial statements;
- adding an explicit statement to AASB 7 that qualitative disclosures should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments;
- amending AASB 101 to the effect that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income is required to be presented, but is permitted to be presented in the statement of changes in equity or in the notes;
- adding a number of examples to the list of events or transactions that require disclosure under AASB 134; and
- making sundry editorial amendments to various Standards and Interpretations.

This Standard is not expected to impact the Group.

AASB 2010-5: Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042] (applicable for annual reporting periods beginning on or after 1 January 2011).

This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. However, these editorial amendments have no major impact on the requirements of the respective amended pronouncements.

AASB 2010-6: Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7] (applicable for annual reporting periods beginning on or after 1 July 2011).

This Standard adds and amends disclosure requirements about transfers of financial assets, especially those in respect of the nature of the financial assets involved and the risks associated with them. Accordingly, this Standard makes amendments to AASB 1: First-time Adoption of Australian Accounting Standards, and AASB 7: Financial Instruments: Disclosures, establishing additional disclosure requirements in relation to transfers of financial assets.

This Standard is not expected to impact the Group.

AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applies to periods beginning on or after 1 January 2013).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

This Standard makes amendments to a range of Australian Accounting Standards and Interpretations as a consequence of the issuance of AASB 9: Financial Instruments in December 2010. Accordingly, these amendments will only apply when the entity adopts AASB 9.

As noted above, the Group has not yet determined any potential impact on the financial statements from adopting AASB 9.

AASB 2010-8: Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112] (applies to periods beginning on or after 1 January 2012).

This Standard makes amendments to AASB 112: Income Taxes.

The amendments brought in by this Standard introduce a more practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model under AASB 140: Investment Property.

Under the current AASB 112, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. The amendments introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

The amendments brought in by this Standard also incorporate Interpretation 121 into AASB 112.

The amendments are not expected to impact the Group.

AASB 2010-9: Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters [AASB 1] (applies to periods beginning on or after 1 July 2011).

This Standard makes amendments to AASB 1: First-time Adoption of Australian Accounting Standards.

The amendments brought in by this Standard provide relief for first-time adopters of Australian Accounting Standards from having to reconstruct transactions that occurred before their date of transition to Australian Accounting Standards.

Furthermore, the amendments brought in by this Standard also provide guidance for entities emerging from severe hyperinflation either to resume presenting Australian-Accounting-Standards financial statements or to present Australian-Accounting-Standards financial statements for the first time.

This Standard is not expected to impact the Group.

AASB 2010-10: Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters [AASB 2009-11 & AASB 2010-7] (applies to periods beginning on or after 1 January 2013).

This Standard makes amendments to AASB 2009-11: Amendments to Australian Accounting Standards arising from AASB 9, and AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010).

The amendments brought in by this Standard ultimately affect AASB 1: First-time Adoption of Australian Accounting Standards and provide relief for first-time adopters from having to reconstruct transactions that occurred before their transition date.

[The amendments to AASB 2009-11 will only affect early adopters of AASB 2009-11 (and AASB 9: Financial Instruments that was issued in December 2009) as it has been superseded by AASB 2010-7.]

This Standard is not expected to impact the Group.

AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project [AASB 1, AASB 5, AASB 101, AASB 107, AASB 108, AASB 121, AASB 128, AASB 132 & AASB 134 and Interpretations 2, 112 & 113] (applicable for annual reporting periods commencing on or after 1 July 2011)

AASB 2011-1 makes amendments to a range of Australian Accounting Standards and Interpretations for the purpose of closer alignment to IFRSs and harmonisation between Australian and New Zealand Standards. The Standard deletes various Australian-specific guidance and disclosures from other Standards (Australian-specific disclosures retained are now contained in AASB 1054), and aligns the wording used to that adopted in IFRSs. This Standard is not expected to impact the Company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

AASB 2011-2 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements [AASB 101 & AASB 1054] (applicable for annual reporting periods commencing on or after 1 July 2013)

AASB 2011-2 establishes reduced disclosure requirements for entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements in relation to the Australian additional disclosures arising from the Trans-Tasman Convergence Project. The company has not yet assessed the impact of this standard.

AASB 2011-3 Amendments to Australian Accounting Standards – Orderly Adoption of Changes to the ABS GFS Manual and Related Amendments [AASB 1049] (applicable for annual reporting periods commencing on or after 1 July 2012).

This Standard makes amendments to AASB 1049 Whole of Government and General Government Sector Financial Reporting to amend the definition of the ABS GFS Manual, provide relief from adopting the latest version of the ABS GFS Manual, and require related disclosures where the latest version of the ABS GFS Manual has not been applied. The standard is not expected to impact the company.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124] (applicable for annual reporting periods commencing on or after 1 July 2013).

This standard removes all the individual key management personnel disclosures contained in Aus paragraphs 29.1 to 29.9.3 of AASB 124. The changes apply to each disclosing entity, or group of which a disclosing entity is the parent that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act for their first annual reporting period beginning on or after 1 July 2013. This standard is not available for early adoption, however as the Company is not a disclosing entity these changes are not expected to impact the Company.

AASB 2011-5 Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation [AASB 127, AASB 128 & AASB 131] (applicable for annual reporting periods commencing on or after 1 July 2011)

This Standard extends the relief from consolidation, the equity method and proportionate consolidation by removing the requirement for the consolidated financial statements prepared by the ultimate or any intermediate parent entity to be IFRS compliant, provided that the parent entity, investor or venturer and the ultimate or intermediate parent entity are not-for-profit entities that comply with Australian Accounting Standards. The standard is not expected to impact the company.

AASB 2011-6 Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation – Reduced Disclosure Requirements [AASB 127, AASB 128 & AASB 131] (applicable for annual reporting periods commencing on or after 1 July 2013)

This Standard extends the relief from consolidation, the equity method and proportionate consolidation by removing the requirement for the consolidated financial statements prepared by the ultimate or any intermediate parent entity to be IFRS compliant, provided that the parent entity, investor or venturer and the ultimate or intermediate parent entity comply with Australian Accounting Standards or Australian Accounting Standards – Reduced Disclosure Requirements, as stated above. The standard is not expected to impact the company.

The Company does not anticipate early adoption of any of the above Australian Accounting Standards or Interpretations.

The Financial statements were authorised for issue on 29 September 2011 by the Board of Directors.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 REVENUE

	Economic Entity		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
Revenue from continuing operations				
Sales				
Revenue from sale of goods	1,649,171	2,205,817	-	-
Total	1,649,171	2,205,817	-	-
Other Income				
Interest	37,094	104,843	31,421	103,602
Royalty Income	-	14,662	-	-
Export Marketing Grant	-	115,996	-	-
Research & Development Tax Rebate received	169,442	-	-	-
Brokerage Received	-	10,500	-	10,500
Other	10,119	52,395	1,792	-
Total	216,655	298,396	33,213	114,102
Total Revenue	1,865,826	2,504,213	33,213	114,102

NOTE 3 LOSS FOR THE YEAR

	Economic Entity		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$

The Loss before income tax has been arrived at after the following major items of expenses

Expenses

Depreciation & Amortisation	144,483	198,967	3,058	3,642
Rental expenses relating to operating leases	194,869	91,089	30,533	23,403
Share of associate's net loss	-	354,171	-	-
Research, development, and Patent costs	1,322,833	958,522	26,622	-
Provision for impairment of receivables	-	-	1,208	2,997,150
Write off of financial assets	-	1,144,050	-	1,145,150
Amounts written off as Bad debts	-	60,329	-	60,329
Write off of stock	28,581	52,699	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 INCOME TAX EXPENSE

	Economic Entity		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
a) The prima facie tax credit on loss before income tax is reconciled to the income tax credit as follows :				
Prima facie tax credit provided on loss before income tax at 30% (2010: 30%)				
- Economic Entity	(996,997)	(1,666,171)	-	-
- Parent Entity	-	-	(128,826)	(1,611,310)
	(996,997)	(1,666,171)	(128,826)	(1,611,310)
- Share of associates' net losses	-	106,251	-	-
- Adjustment for foreign tax rate	47,045	44,145	-	-
- Research & Development Tax Offset	(50,833)	-	-	-
- Non-deductible expenses	96,630	2,251	12,745	901,057
- Other deductible expenses	(3,689)	-	(3,689)	-
- Gain on deconsolidation of controlled entity	-	(25,908)	-	-
- Gain on designation of AFS Assets	(221,065)	-	(221,065)	-
- Adjustments to prior year losses	320,915	(692,995)	292,559	61,467
	(807,994)	(2,232,427)	(48,276)	(648,638)
Recoupment of prior years' tax losses not previously brought to account.	-	-	-	-
Deferred income tax assets not recognised	807,994	2,232,427	48,276	648,638
Income tax attributable to entity adjusted	-	-	-	-
b) The Directors estimate that the potential deferred income tax assets at 30 June 2011 in respect of tax losses not brought to account is :	5,793,808	4,985,814	2,002,655	1,954,379

Deferred tax assets have not been brought to account as it is not currently considered probable that future taxable profits will be available against which such assets could be utilised.

NOTE 5 KEY MANAGEMENT PERSONNEL COMPENSATION

a. Names and positions held of economic and parent entity key management personnel in office at any time during the financial year are

Key Management Person	Position
Mr Pat Volpe	Chairman
Dr Frank Glatz	Managing Director
Dr John Scheirs	Non Executive Director
Mr Chen Yi	Non Executive Director
Mr. Graeme Ward	General Manager
Miss R Bhambhani	Chief Financial Officer & Company Secretary
Mr A Fernando	Chief Operating Officer
Mr Chen Chan Ping	Technical Director, China Operations

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

Key management personnel remuneration has been included in the Remuneration Report section of the Directors Report.

	2011	2010
	\$	\$
Short-term employee benefits	1,177,793	1,109,535
Post-employment benefits	90,444	89,113
Termination Benefits	-	63,750
	<u>1,268,237</u>	<u>1,262,398</u>

b. Option Holdings

Number of Options Held by Key Management Personnel (Directly and Indirect Interest)

2011

	Balance 1.7.2010	Granted as Compensation	Options Exercised	Net Change Other (I) &(II)	Balance 30.6.2011
Options Expiring 30 June 2012					
F Glatz	-	-	-	500,000	500,000
G Ward	-	-	-	450,000	450,000
R Bhambhani	-	-	-	72,973	72,973
Options Expiring 30 June 2011					
P Volpe	74,859,047	-	-	(74,859,047)	-
F Glatz	4,800,000	-	-	(4,800,000)	-
J Scheirs	6,492,224	-	-	(6,492,224)	-
Chen Yi	16,000,000	-	-	(16,000,000)	-
J Wilson	1,170,011	-	-	(1,170,011)	-
R Bhambhani	112,400	-	-	(112,400)	-

(I) Net Change Other in June 2012 Options refers to options purchased and /or sold during the financial year. These options were purchased on market or subscribed to the entitlement issue offers of the Company during the year. No options were issued as part of any employee option scheme.

(II) Net Change Other in June 2011 Options refers to options expired unexercised as at 30 June 2011. These options were purchased on market or subscribed to or were part of the consideration on the Cardia-Biograde merger. No options were issued as part of any employee option scheme.

2010

	Balance 1.7.2009	Granted as Compensation	Options Exercised	Net Change Other (I)	Balance 30.6.2010
Options Expiring 30 June 2011					
P Volpe	74,859,047	-	-	-	74,859,047
F Glatz	4,800,000	-	-	-	4,800,000
J Scheirs	6,492,224	-	-	-	6,492,224
Chen Yi	16,000,000	-	-	-	16,000,000
J Wilson	1,170,011	-	-	-	1,170,011
R Bhambhani	112,400	-	-	-	112,400

(I) Net Change Other refers to options purchased and /or sold during the financial year. These options were purchased on market or subscribed to or were part of the consideration on the Cardia-Biograde merger. No options were issued as part of any employee option scheme.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

c. Share Holdings (Direct and Indirect)

2011

	Balance 1.7.2010	Received as Compensation(I)	Options Exercised	Net Change Other (II)	Balance 30.6.2011
P Volpe	90,498,297	-	-	29,835,037	120,333,334
F Glatz	12,262,334	-	-	2,700,000	14,962,334
J Scheirs	6,592,224	-	-	-	6,592,224
Chen Yi	16,000,000	2,500,000	-	-	18,500,000
G Ward	-	2,500,000	-	1,800,000	4,300,000
R Bhambhani	168,110	1,000,000	-	331,890	1,500,000
A Fernando	300,000	-	-	-	300,000

(I) Mr. Chen Yi was issued 2,500,000 Ordinary shares at an issue price of 2 cents each towards the settlement of his outstanding salary for prior years. The Share Issue was approved by the Shareholders' in the Annual General Meeting held on 29th November 2010. Mr. Graeme Ward and M/s Rekha Bhambhani were issued 2,500,000 and 1,000,000 Ordinary shares respectively at an issue price of 2 cents each in accordance with the terms of their employment contract and/or arrangements.

(II) Net Change Other refers to shares purchased and /or sold during the financial year. These shares were purchased on market or subscribed to the entitlement issue offers of the Company during the year.

2010

	Balance 1.7.2009	Received as Compensation	Options Exercised	Net Change Other (I)	Balance 30.6.2010
P Volpe	90,498,297	-	-	-	90,498,297
F Glatz	6,002,334	6,000,000	-	260,000	12,262,334
J Scheirs	6,592,224	-	-	-	6,592,224
Chen Yi	16,000,000	-	-	-	16,000,000
J Wilson	1,865,019	-	-	-	1,865,019
R Bhambhani	168,110	-	-	-	168,110
A Fernando	-	300,000	-	-	300,000

(I) Net Change Other refers to shares purchased and /or sold during the financial year.

Other Transactions with Key Management Personnel

There have been no other transactions involving equity instruments other than those described in the tables above.

For details of other transactions with KMP, refer to Note 25: Related Party Transactions.

NOTE 6 REMUNERATION OF AUDITORS

	Economic Entity		Parent Entity	
	2011 \$	2010 \$	2011 \$	2010 \$
Remuneration of the auditor of the parent entity for				
- auditing or reviewing the financial statements	37,287	48,783	37,287	48,783
Remuneration of other auditors of subsidiaries for :				
- auditing or reviewing the financial statements of subsidiaries	7,149	6,715	-	-
	44,436	55,498	37,287	48,783

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 EARNINGS PER SHARE

	Economic Entity	
	2011 \$	2010 \$
a) Reconciliation of losses used to calculate earnings per share		
Loss from continuing & discontinuing operations	(3,323,324)	(5,553,902)
Profit attributable to non controlling interest	(1,887)	(3,580)
Loss used to calculate basic EPS from continuing and discontinuing operations	(3,325,211)	(5,557,482)
b) Reconciliation of losses used to calculate earnings per share		
Loss from continuing operations	(3,323,324)	(5,640,263)
Profit attributable to non controlling interest	(1,887)	(3,580)
Loss used to calculate basic EPS from continuing operations	(3,325,211)	(5,643,843)
c) Reconciliation of losses used to calculate earnings per share		
Profit from discontinuing operations	-	86,361
Profit attributable to non controlling interest	-	-
Profit from discontinuing operations	-	86,361
	Number	Number
d) Weighted average number of ordinary shares used in the calculation of basic earnings (loss) per share	865,279,488	656,014,234
e) Weighted average number of ordinary shares and options used in the calculation of diluted earnings (loss) per share	865,279,488	656,014,234

8,577,876 (2010: 539,553,143) options do not have a dilutive effect since the average market price of ordinary shares during the year did not exceed the exercise price of options.

NOTE 8 CASH AND CASH EQUIVALENTS

	Economic Entity		Parent Entity	
	2011 \$	2010 \$	2011 \$	2010 \$
Cash at bank and on hand	1,067,541	1,603,791	546,622	1,264,935
Term Deposit against L/C	-	114,221	-	-
Term Deposit	3,000,000	-	3,000,000	-
Funds in Transit	86,523	-	-	-
Balances per statement of cash flows	4,154,064	1,718,012	3,546,622	1,264,935

The short term deposits are provided as security against Letter of Credits for imports and earn no interest. These deposits have maturity period of 90 days.

Reconciliation of cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:

Cash and cash equivalents	4,154,064	1,718,012	3,546,622	1,264,935
---------------------------	-----------	-----------	-----------	-----------

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 TRADE AND OTHER RECEIVABLES

	Economic Entity		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
Current				
Trade Receivables	453,052	312,243	13,117	-
Prepayments	47,598	63,525	-	-
Other receivables	184,801	148,485	7,052	16,355
Government Grants Receivable	-	65,996	-	-
Receivables from Key Management Personnel	4,758	37,510	-	37,510
	690,209	627,759	20,169	53,865
Non Current				
Amount receivable from:				
- wholly-owned subsidiaries	-	-	10,023,512	6,969,522
- provision for impairment- wholly owned subsidiaries	-	-	(4,647,843)	(4,647,843)
- other controlled entities	-	-	4,170	2,962
- provision for impairment- controlled entities	-	-	(4,170)	(2,962)
	-	-	5,375,669	2,321,679

Provision for Impairment of Receivables

Current trade receivables are non-interest bearing and are generally on 30-day terms. Non current trade receivables are assessed for recoverability based on the underlying terms of the contract. A provision for impairment is recognised when there is objective evidence that an individual trade receivable is impaired. These amounts have been disclosed as a separate line item in Statement of comprehensive income. Impaired Receivables age more than 365 days.

Movement in the provision for impairment of receivables is as follows:

2011	Opening Balance 1.7.2010	Charge for the Year	Amounts Written Off	Closing Balance 30.06.2011
	\$	\$	\$	\$
Economic Entity				
Current Trade & Other Receivables	-	-	-	-
	-	-	-	-
Parent Entity				
Current Trade & Receivables	-	-	-	-
Non Current wholly owned subsidiaries	4,647,843	-	-	4,647,843
Non Current Other controlled entities	2,962	1,208	-	4,170
	4,650,805	1,208	-	4,652,013
2010	Opening Balance 1.7.2009	Charge for the Year	Amounts Written Off	Closing Balance 30.06.2010
	\$	\$	\$	\$
Economic Entity				
Current Trade & Other Receivables	-	-	-	-
	-	-	-	-
Parent Entity				
Current Trade & Receivables	-	-	-	-
Non Current wholly owned subsidiaries	1,651,784	2,996,059	-	4,647,843
Non Current Other controlled entities	1,870	1,092	-	2,962
	1,653,654	2,997,150	-	4,650,805

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 TRADE AND OTHER RECEIVABLES (CONTINUED)

Credit Risk- Trade and Other Receivables

The Group has no significant concentration of credit risk with respect to any single counter party or group of counter parties other than receivables specifically provided for and mentioned within Note 9. The class of assets described as Trade and Other Receivables is considered to be the main source of credit risk related to the Group.

On a geographical basis, the Group has significant credit risk exposures in Australia and China given the substantial operations in those regions. The Group's exposure to credit risk for receivables at the end of reporting period in those regions is as follows:

	Economic Entity		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
Australia	249,972	332,163	20,169	53,865
China	440,237	295,596	-	-
	690,209	627,759	20,169	53,865

The following table details the Group's trade and other receivables exposed to credit risk with ageing analysis and impairment provided for thereon. Amounts are considered as 'past due' when the debt has not been settled, with the terms and conditions agreed between the Group and the customer or counter party to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group.

The balances of receivables that remain within initial terms (as detailed in the table) are considered to be of high credit quality.

The carrying amount of receivables is considered a reasonable approximation to fair values.

Economic Entity

	Gross Amount	Past due and Impaired	Past due but not impaired (days overdue)				Within initial trade terms
			<30	31-60	61-90	>90	
2011							
Trade Receivables	453,052	-	29,161	20,199	59,519	97,786	246,387
Other Receivables	237,157	-	55,571	2,365	3,926	29,575	145,720
Total	690,209	-	84,732	22,564	63,445	127,361	392,107
2010							
Trade Receivables	312,243		99,928	17,309	21,897	15,109	158,000
Other Receivables	315,516		-	6,806	4,952	4,383	299,375
Total	627,759		99,928	24,115	26,849	19,492	457,375

Parent Entity

	Gross Amount	Past due and Impaired	Past due but not impaired (days overdue)				Within initial trade terms
			<30	31-60	61-90	>90	
2011							
Trade Receivables	10,040,799	4,652,013	701,399	143,357	137,515	4,406,515	-
Other Receivables	7,052	-		-	-		7,052
Total	10,047,851	4,652,013	701,399	143,357	137,515	4,406,515	7,052
2010							
Trade Receivables	6,972,484	4,650,805	223,973	425,085	108,336	1,564,285	-
Other Receivables	53,865	-	-	-	-	-	53,865
Total	7,026,349	4,650,805	223,973	425,085	108,336	1,564,285	53,865

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 TRADE AND OTHER RECEIVABLES (CONTINUED)

Neither the Group nor parent entity holds any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired.

Financial assets classified as loans and receivables

	Economic Entity		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
Trade and other receivables				
Total current	642,611	564,234	20,169	53,865
Total non current	-	-	5,375,669	2,321,679
	642,611	564,234	5,395,838	2,375,544

NOTE 10 INVENTORIES

	Economic Entity		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
Current				
At cost				
Raw materials and stores	383,977	359,171	-	-
Work in progress	34,164	17,971	-	-
Finished goods	646,504	218,554	-	-
	1,064,645	595,696	-	-

NOTE 11 ASSOCIATED ENTITY

Interest is held in the following associated entity.

Name	Principal Activities	Country of Incorporation	Ordinary Shares	Ownership Interest		Carrying amount of Investments	
				2011	2010	2011	2010
				%	%	\$	\$
Bioglobal Ltd- (Unlisted)	Agricultural Pest Control	Australia	18,780,000	N/A	18.44	N/A	916,147

As disclosed in the 2010 annual report, Bioglobal Limited ceased to be an "Associate" (as defined in AASB 128) of the Company from 1 July 2010. As a result, the Company discontinued to account for its 17.76% investment in Bioglobal Limited using the equity method of accounting (AASB 128) and has accounted for that investment as Available for Sale financial asset in accordance with AASB-139. Accordingly, the cost base of the investment is recorded at the carrying amount of the investment at the date that it ceased to be an "Associate". The resultant gain of \$736,883 was recorded through the statement of comprehensive income during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 ASSOCIATED ENTITY (CONTINUED)

	Economic Entity		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
a. Movements During the Year in Equity Accounted Investment in Associated Entity				
Balance at beginning of the financial year	-	935,840	-	-
Add: Share of associate's loss after income Tax	-	(354,171)	-	-
Less :Disposal during the year	-	-	-	-
Add : Gain on dilution in shareholdings in Associate	-	334,478	-	-
Balance at end of the financial year	-	916,147	-	-
b. Equity accounted profits of associate are broken down as follows :				
Share of associate's loss before income tax expense	-	(391,900)	-	-
Share of associate's income tax expense	-	37,729	-	-
Share of associate's loss after income tax	-	(354,171)	-	-
c. Summarised Presentation of Aggregate Assets, Liabilities and Performance of Associate				
Current Assets	-	4,093,029	-	-
Non-Current Assets	-	1,322,314	-	-
Total Assets	-	5,415,343	-	-
Current Liabilities	-	375,546	-	-
Non –Current Liabilities	-	74,228	-	-
Total Liabilities	-	449,774	-	-
Net Assets	-	4,965,569	-	-
Revenues	-	2,258,425	-	-
Loss after income tax of associate	-	(1,520,904)	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 FINANCIAL ASSETS

	Economic Entity		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
Current				
Receivables				
From related party	-	5,161,864	-	5,161,864
Provision for impairment of receivables	-	-	-	-
Secured Loans				
To related party	-	1,000,000	-	1,000,000
Interest Accrued thereon	-	224,050	-	224,050
Total Receivables & Secured Loans with Interest				
Accrued	-	6,385,914	-	6,385,914
Write Off of Receivables & Secured Loan with Accrued Interest	-	(6,305,914)	-	(6,305,914)
	-	80,000	-	80,000
Available –for-sale financial assets				
Listed Investments, at fair value	94,126	94,126	94,126	94,126
Provision for Impairment	(94,126)	(94,126)	(94,126)	(94,126)
(a)	-	-	-	-
	-	80,000	-	80,000
Non Current				
Available –for-sale financial assets				
Unlisted Investments, at fair value	2,817,000	-	2,817,000	-
(b)	2,817,000	-	2,817,000	-
Other Investments				
Unlisted Investments ,at cost	210,000	210,000	8,642,478	8,648,580
Provision for investment write down	-	-	(713,524)	(713,524)
Write down of Investments	-	-	-	(6,102)
	210,000	210,000	7,928,954	7,928,954
	3,027,000	210,000	10,745,954	7,928,954

- (a) Available for sale financial assets consist of 156,877 ordinary shares in Pallane Medical Limited (formerly Dia-B Tech Investments Limited). The investment in those shares remained fully impaired as at 30 June 2011.
- (b) As disclosed in the 2010 annual report, Bioglobal Limited ceased to be an “Associate” (as defined in AASB 128) of the Company from 1 July 2010. As a result, the Company discontinued to account for its 17.76% (2010: 18.44%) investment in Bioglobal Limited using the equity method of accounting (AASB 128) and has accounted for that investment as Available for Sale financial asset in accordance with AASB-139. Accordingly, the cost base of the investment is recorded at the carrying amount of the investment at the date that it ceased to be an “Associate”. The resultant gain of \$736,883 was recorded through the statement of comprehensive income during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 PLANT AND EQUIPMENT

	Economic Entity		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
Plant & Machinery				
At cost	627,495	688,362	-	-
Accumulated depreciation	(213,840)	(166,854)	-	-
	413,655	521,508	-	-
Office Equipments				
At cost	118,059	126,796	26,953	26,952
Accumulated depreciation	(94,362)	(77,623)	(25,019)	(23,307)
	23,697	49,173	1,934	3,645
Motor Vehicles				
At cost	69,817	126,426	-	-
Accumulated depreciation	(33,090)	(56,810)	-	-
	36,727	69,616	-	-
Furniture & Fixtures				
At cost	39,880	39,879	20,807	20,807
Accumulated depreciation	(22,621)	(19,844)	(18,543)	(17,197)
	17,259	20,035	2,264	3,610
Leasehold Improvements				
At cost	265,057	299,993	-	-
Accumulated depreciation	(66,407)	(34,159)	-	-
	198,650	265,834	-	-
	689,988	926,166	4,198	7,255

Movement in Carrying Amounts

Reconciliations of the carrying amounts of plant and equipment at the beginning and end of the current and previous financial year are set out below.

Economic Entity

	Plant & Machinery	Office Equipments	Motor Vehicles	Furniture & Fixtures	Leasehold Improvements	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2009	428,158	63,503	62,795	23,096	87,621	665,173
Additions during the year	175,246	11,280	31,417	-	198,403	416,346
Foreign Exchange Rate Variations	(16,114)	(2,224)	(3,839)	-	(1,135)	(23,312)
Depreciation Expenses	(23,625)	(23,386)	(20,757)	(3,061)	(19,055)	(89,884)
Depreciation included in Cost of goods sold	(42,157)	-	-	-	-	(42,157)
Balance at 30 June 2010	521,508	49,173	69,616	20,035	265,834	926,166
Balance at 1 July 2010	521,508	49,173	69,616	20,035	265,834	926,166
Additions during the year	15,600	1,156	5,840	-	-	22,596
Disposals during the year	-	-	(10,146)	-	-	(10,146)
Foreign Exchange Rate Variations	(50,145)	(3,836)	(8,400)	-	(28,298)	(90,679)
Depreciation Expenses	(59,842)	(22,796)	(20,183)	(2,776)	(38,886)	(144,483)
Depreciation included in Cost of goods sold	(13,466)	-	-	-	-	(13,466)
Balance at 30 June 2011	413,655	23,697	36,727	17,259	198,650	689,988

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 PLANT AND EQUIPMENT (CONTINUED)

Parent Entity

	Plant & Machinery \$	Office Equipments \$	Motor Vehicles \$	Furniture & Fixtures \$	Leasehold Improvements \$	Total \$
Balance at 1 July 2009	-	5,294	-	5,241	-	10,535
Additions during the year	-	362	-	-	-	362
Depreciation Expenses	-	(2,011)	-	(1,631)	-	(3,642)
Balance at 30 June 2010	-	3,645	-	3,610	-	7,255
Balance at 1 July 2010	-	3,645	-	3,610	-	7,255
Additions during the year	-	-	-	-	-	-
Depreciation Expenses	-	(1,711)	-	(1,346)	-	(3,057)
Balance at 30 June 2011	-	1,934	-	2,264	-	4,198

NOTE 14 INTANGIBLE ASSETS

	Economic Entity		Parent Entity	
	2011 \$	2010 \$	2011 \$	2010 \$
Goodwill				
Cost	8,112,783	8,112,783	-	-
Accumulated impaired losses	(1,546,833)	(1,546,833)	-	-
Net carrying value	6,565,950	6,565,950	-	-
Patents and Trademarks				
Cost	651,954	651,954	-	-
Accumulated amortisation, impairment and write off	(651,954)	(441,200)	-	-
Net carrying value	-	210,754	-	-
Total Intangibles	6,565,950	6,776,704	-	-

Economic Entity

Goodwill

Patents &
Trademarks
\$

Year Ended 30 June 2010

Balance at the beginning of year	6,565,950	336,799
Foreign Exchange Rate Variation	-	(16,963)
Amortisation Charge	-	(109,082)
Impairment losses	-	-
Closing Value at 30 June 2010	6,565,950	210,754

Year Ended 30 June 2011

Balance at the beginning of year	6,565,950	210,754
Foreign Exchange Rate Variation	-	-
Amortisation Charge and write off	-	(210,754)
Impairment losses	-	-
Closing Value at 30 June 2011	6,565,950	-

Intangible assets, other than goodwill, have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expense per the statement of comprehensive income. Goodwill has an infinite life.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 14 INTANGIBLE ASSETS (CONTINUED)

Impairment Disclosures

Goodwill is allocated to the distribution division of the company 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.

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" clause. 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 16.6%.
- c. Gross profit margin is assumed to be in a range of 20%-25% dependent upon region.
- d. Annual Growth rate of 3.5% based on CPI has been assumed for cash flow projections due to capacity constraints.

Management has based the value-in-use calculations on four year budget forecasts of Biograde business. Revenue has been projected on the abovementioned 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 a particular segment.

Based on the above assumptions, the recoverable amount of the cash generating unit has been determined to exceed its carrying amount as at 30th June 2011 and hence no impairment loss has been recognised.

Sensitivity to changes in assumptions

Gross Profit Margin Assumption- Management has considered the possibility of lower gross margins of up to 15% than those budgeted, on the assumption that should raw material price increases beyond the budgeted raw material price inflation and the Group be not able to pass on additional costs to the customers or absorb through efficiency improvements. In that case, the recoverable amount of cash generating unit will fall below its carrying amount.

NOTE 15 TRADE AND OTHER PAYABLES

	Economic Entity		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
Current				
Unsecured Liabilities				
Trade Payables	668,371	320,968	34,136	25,668
Sundry payables and accrued expenses	187,127	352,913	53,081	62,180
Withholding tax payable	37,741	43,829	25,455	22,981
	893,239	717,710	112,672	110,829

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 16 SHORT TERM PROVISIONS

	Economic Entity		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
Employee benefits	180,100	125,372	142,643	101,281
	180,100	125,372	142,643	101,281
Reconciliation of Provisions				
	Economic Entity		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
Opening Balance at 1 July	125,372	114,953	101,281	64,059
Additional provisions	118,402	103,280	58,605	72,692
Amount Used	(63,674)	(92,861)	(17,243)	(35,470)
Balance at 30 June	180,100	125,372	142,643	101,281

NOTE 17 ISSUED CAPITAL

(A) Share Capital

	Economic Entity		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
Ordinary - fully paid shares	40,091,115	33,749,092	40,091,115	33,749,092

(B) Movement in Ordinary Share Capital

Date		Number of Shares	Issue Price	Amount \$
1 July 2009	Balance	616,136,591		30,978,621
4 August 2009	Issue of shares to Managing Director	6,000,000	\$0.025	150,000
4 August 2009	Issue of shares to employees	700,000	\$0.050	35,000
18 March 2010	Share Placement	118,759,996	\$0.022	2,612,720
18 March 2010	Cost of Capital Raising			(27,249)
30 June 2010	Balance	741,596,587		33,749,092
15 October 2010	Entitlement Issue	144,453,122	\$0.020	2,166,797
	Cost of Capital Raising			(49,964)
1/12/2010	Issue of Shares to Director-Mr Chen Yi	2,500,000	\$0.020	50,000
31/12/2010	Issue of shares to employees	6,000,000	\$0.020	120,000
16/06/2011	Entitlement Issue	447,274,855	\$0.010	4,472,874
	Cost of Capital Raising			(417,684)
30 June 2011	Balance	1,341,824,564		40,091,115

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 17 ISSUED CAPITAL (CONTINUED)

(C) Ordinary Shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary Shares have no par value, and the company does not have a limited amount of authorised share capital.

(D) Movement in options

Date		Number of Options	Issue Price	Amount \$
Exercisable at \$ 0.10 on or before 30 June 2011				
1 July 2009	Balance	522,612,199	-	1,461,689
18 March 2010	Options issued free under share placement to professional and sophisticated investors on the basis of 1 new option (exercisable at \$0.10 expiring 30 June 2011) for every 2 shares subscribed for in Cardia	59,379,998	-	-
30 June 2010	Balance	581,992,197	-	1,461,689
30 June 2011	Options Expiry	(581,992,197)	-	(1,461,689)
30 June 2011	Balance	-	-	-
Exercisable at \$ 0.015 on or before 30 June 2012				
16 June 2011	Options issued free pursuant to Entitlement Issue on the basis of 1 new option (exercisable at \$0.015 expiring 30 June 2012) for every 4 shares subscribed for in Cardia	223,637,482	-	-
30 June 2011	Balance	223,637,482	-	223,637,482

(E) Capital Management

Management controls the capital of the group in order to maintain sufficient liquidity to cover the group's working capital requirements, to meet any new investment opportunities as they arise and to safeguard the company's ability to continue as a going concern.

The group's debt and capital includes ordinary share capital and financial liabilities supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the group's capital by regularly monitoring its current and expected liquidity requirements and by assessing the group's financial risks, rather than using debt/equity ratio analyses. The group's capital structure is adjusted in response to the changes in liquidity requirements and financial risks. These responses include the management of debt levels and share issues.

There have been no changes in the strategy adopted by management to control the capital of the group since the prior year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 18 RESERVES

Nature and Purpose of Reserves

a. Asset Revaluation Reserve

The asset revaluation reserve records revaluations of non-current assets.

b. Foreign Currency Translation Reserve

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary as described in Note 1(j)

c. Option Reserve

The Balance of \$1,461,689 at 30 June 2010 represents the amount of \$421,831 raised (after costs) in August 2008 from a new issue of options exercisable at 10 cents expiring on or before 30 June 2011 and balance of \$1,039,858 represents fair value of 259,964,442 options issued as part of consideration for the acquisition of Biograde Limited. Fair value of Options has been determined based on closing bid price of Cardia Options at the date of the acquisition.

Following the expiry of options on 30 June 2011, Option Reserve Balance of \$1,461,689 was transferred to accumulated losses.

d. Capital Reserve

The Balance of \$14,771 represents an exchange gain on capital injected into the controlled entity Biograde (Nanjing) Pty Ltd as required to be disclosed separately as per Capital Regulations in the Peoples Republic of China.

NOTE 19 CONTROLLED ENTITIES

a. Controlled Entities Consolidated

Name	Country of Incorporation	Equity Holding (%) ⁽¹⁾	
		2011	2010
Cardia Bioplastics (Australia) Ltd	Australia	100.00	100.00
Tristano Pty Ltd	Australia	100.00	100.00
Biograde (Nanjing) Pty Ltd	China	100.00	100.00
Biograde (Hong Kong) Pty Ltd	Hong Kong	100.00	100.00
Cardia Bioplastics Malaysia Sdn Bhd ⁽²⁾	Malaysia	100.00	-
CO2Starch Pty Ltd ⁽³⁾	Australia	100.00	100.00
Mine Remediation Services Pty Ltd	Australia	69.36	69.36
Natural Pharmacy Pty Ltd	Australia	66.00	66.00
Herbworx International Pty Ltd (60% owned by Natural Pharmacy Pty Ltd)	Australia	39.60	39.60

1. Percentage of voting power is in proportion to ownership.

2. On 22th September 2011, Cardia Bioplastics Malaysia Sdn Bhd was set up as a wholly owned subsidiary of the Company.

3. On the 12 January 2011 Cardia renamed one of its existing subsidiary companies to CO2Starch Pty Ltd.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 20 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There were no contingent liabilities or contingent assets as at 30 June 2011 (2010: NIL)

NOTE 21 CAPITAL AND LEASING COMMITMENTS

Operating Lease Commitments

Commitments in relation to operating leases contracted for at the end of the reporting period but not recognised as liabilities, payable:

	Economic Entity		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
Operating Lease Commitments				
Not later than 12 months	146,114	158,071	35,000	-
between 12 months and 5 years	95,140	59,277	53,472	-
	241,254	217,348	88,472	-

The consolidated entity leases property under operating leases expiring from one to five years. Leases generally provide the consolidated entity with a right of renewal from nil years to three years.

NOTE 22 OPERATING SEGMENTS

Segment Information

Identification of reportable segments

The business segments of the consolidated entity continued to be five business divisions namely:

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

Cardia Bioplastics (Australia) Pty Ltd (formerly Biograde Limited) was acquired by Cardia on 6th March 2009. That Company'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.

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 the five division 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**NOTE 22 OPERATING SEGMENTS (CONTINUED)**

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, manufactures sustainable resins derived from renewable resources for the global packaging and plastic products industries.

Manufacturing segment, which includes manufacturing unit in China, is responsible for distribution and sales of products locally due to better management of logistics and knowledge of local market.

The manufacturing segment also sells products to the distribution segment.

(ii) Distribution Division

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 22 OPERATING SEGMENTS (CONTINUED)

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

Segment Information

	Manufacturing Division	Distribution Division	Corporate	Total
Year ended 30.06.2011	\$	\$	\$	\$
Revenue				
External Sales	850,892	798,279	-	1,649,171
Inter –segment sales	856,805	-	-	856,805
Interest revenue	359	5,314	31,421	37,094
Other Income	230	170,539	8,792	179,561
Total Segment Revenue	1,708,286	974,132	40,213	2,722,631
<i>Reconciliation of segment revenue to group revenue</i>				
Inter-segment elimination	(856,804)	-	-	(856,805)
Total Group Revenue	851,481	974,132	40,213	1,865,826
Segment Net Loss before Tax	(685,998)	(2,067,869)	(1,161,857)	(3,915,724)
<i>Reconciliation of segment result to group net loss before tax</i>				
-Amount not included in segment result but reviewed by Board				
- Depreciation & amortisation	(98,668)	(42,757)	(3,058)	(144,483)
- Gain on Reclassification of AFS Assets	-	-	736,883	736,883
Net Loss for the Period	(784,666)	(2,110,626)	(428,032)	(3,323,324)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 22 OPERATING SEGMENTS (CONTINUED)

Segment Performance

	Manufacturing Division	Distribution Division	Corporate	Total
Year ended 30.06.2010	\$	\$	\$	\$
Revenue				
External Sales	1,559,992	645,825	-	2,205,817
Inter –segment sales	655,712	-	-	655,712
Interest revenue	1,115	-	103,728	104,843
Other Income	52,381	116,010	25,162	193,553
Total Segment Revenue	2,269,200	761,835	128,890	3,159,925
<i>Reconciliation of segment revenue to group revenue</i>				
Inter-segment elimination	(655,712)	-	-	(655,712)
Total Group Revenue	1,613,488	761,835	128,890	2,504,213
Segment Net Loss before Tax	(716,612)	(1,925,428)	(1,240,706)	(3,882,746)
<i>Reconciliation of segment result to group net loss before tax</i>				
-Amount not included in segment result but reviewed by Board				
- Depreciation & amortisation	(149,249)	(46,076)	(3,642)	(198,967)
- Write down of Financial Assets	-	-	(1,144,050)	(1,144,050)
- Bad Debts	-	-	(60,329)	(60,329)
- Share of loss of associates using Equity Accounting	-	-	(354,171)	(354,171)
Net Loss before tax from continuing operations	(865,861)	(1,971,504)	(2,802,898)	(5,640,263)
- Gain on Deconsolidation of subsidiary	-	-	86,361	86,361
Net Loss for the Period	(865,861)	(1,971,504)	(2,716,537)	(5,553,902)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 22 OPERATING SEGMENTS (CONTINUED)

Segment Assets

	Manufacturing Division	Distribution Division	Corporate	Total
As at 30.06.2011	\$	\$	\$	\$
Segment Assets	2,413,648	13,153,140	19,791,491	35,358,279
<i>Reconciliation of segment assets to group assets</i>				
Inter-segment eliminations	(12,870)	(6,058,930)	(13,094,623)	(19,166,423)
Segment Assets after inter-segment eliminations	2,400,778	7,094,210	6,696,868	16,191,856
Total Group Assets				16,191,856
Segment asset increases for the period				
- Capital expenditure	22,596	-	-	22,596
Included in segment assets are				
-Goodwill	207,108	6,358,892	-	6,565,950

	Manufacturing Division	Distribution Division	Corporate	Total
As at 30.06.2010	\$	\$	\$	\$
Segment Assets	1,791,789	12,670,475	12,867,238	27,329,502
<i>Reconciliation of segment assets to group assets</i>				
Inter-segment eliminations	(32,182)	(5,205,572)	(10,241,264)	(15,479,018)
Segment Assets after inter-segment eliminations	1,759,607	7,464,903	2,625,974	11,850,484
Total Group Assets				11,850,484
Segment asset increases for the period				
- Capital expenditure	336,877	79,107	362	416,346
Included in segment assets are				
- Equity accounted associates	-	-	916,148	916,148
-Goodwill	207,108	6,358,892	-	6,565,950

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 22 OPERATING SEGMENTS (CONTINUED)

Segment Liabilities	Manufacturing Division	Distribution Division	Corporate	Total
As at 30.06.2011	\$	\$	\$	\$
Segment Liabilities	2,417,488	10,241,813	328,452	12,987,753
<i>Reconciliation of segment liabilities to group liabilities</i>				
Inter-segment eliminations	(1,892,630)	(10,021,784)	-	(11,914,414)
Total Group Liabilities				<u>1,073,339</u>

	Manufacturing Division	Distribution Division	Corporate	Total
As at 30.06.2010	\$	\$	\$	\$
Segment Liabilities	1,100,427	7,226,572	285,305	8,612,304
<i>Reconciliation of segment liabilities to group liabilities</i>				
Inter-segment eliminations	(760,926)	(7,005,334)	(2,962)	(7,769,222)
Total Group Liabilities				<u>843,082</u>

Revenue by geographical region

2011	2010
\$	\$

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

Australia	346,804	457,378
China	850,892	1,559,992
Rest of Asia	4,959	-
USA	346,127	39,048
Europe	100,389	149,399
Total Revenue	<u>1,649,171</u>	<u>2,205,817</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 22 OPERATING SEGMENTS (CONTINUED)

Assets by geographical region	2011	2010
	\$	\$
The location of segment assets by geographical location of assets is disclosed below:		
Australia	13,778,208	10,090,877
Asia	2,413,648	1,759,607
Total Assets	16,191,856	11,850,484

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 12.93% (2010: NIL) of external revenue. The next two significant customers accounted for 9.09% (2010: 9.04%) and 4.64% (2010: NIL) of external revenue respectively.

NOTE 23 CASH FLOW INFORMATION

	Economic Entity		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
Reconciliation of Cash Flow from Operations with Profit after Income Tax				
Operating Profit /(Loss) after income tax	(3,323,324)	(5,553,902)	(429,423)	(5,371,033)
Depreciation on plant and equipment	144,483	198,967	3,058	3,624
Write Off of Intangible Assets	191,681	-	-	-
Provision for impairment of receivables	-	-	1,208	2,996,058
Bad Debts	-	60,329	-	60,329
Write off of Investments	-	1,144,050	-	1,145,144
Write down of investments	-	-	-	1,100
Issue Of shares to employees	170,000	185,000	20,000	150,000
Loss on sale of Fixed Assets	4,764	-	-	-
Gain on reclassification of AFS Asset	(736,883)	-	(736,883)	-
Equity accounting of associates' operating loss/(profit)	-	354,171	-	-
Changes in operating assets and liabilities, net of effects of disposal of subsidiary:				
(Increase)/decrease in receivables	(112,947)	237,369	31,351	33,190
(Increase)/decrease in other operating assets	(346,899)	(879,422)	4,325	(1,081,213)
Increase/(decrease) in creditors	141,277	620,406	(1,694)	943,063
(Decrease)/increase in provisions and other operating liabilities	97,184	(30,684)	44,900	(14,914)
Net cash outflow from operating activities	(3770,664)	(3,663,716)	(1,063,158)	(1,134,652)

Non –Cash Financing and Investing Activities

During the year, the Company issued 8,500,000 fully paid ordinary shares (2010: 6,700,000) to the employees as per the terms of their respective employment contracts or arrangements.

170,000	185,000	170,000	185,000
---------	---------	---------	---------

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 24 AFTER BALANCE DATE EVENTS

Other than the matters discussed below, there has not arisen in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company to affect the operations of the consolidated entity, the results of these operations or the state of affairs of the consolidated entity in subsequent years.

Establishment of Joint Venture Entity

On 11 July 2011 Cardia Bioplastics Limited and RNZ Green Bio Sdn Bhd ("RNZ") announced that the terms and conditions of a joint venture agreement to establish a bioplastics film, printing and bag manufacturing facility in Malaysia had been finalised.

Pursuant to the joint venture agreement, RNZ will contribute Malaysian Ringit (MYR) 15m (A\$ 5m approximately) to maintain a 51% interest in CBMM. Cardia will not provide funding to CBMM, however Cardia will license CBMM with the right to manufacture films and bags using Cardia's patented bioplastics resins, and assist the venture with Cardia Bioplastics management and operational expertise. Cardia and RNZ have equal Board representation on CBMM.

RNZ has contributed an initial cash subscription of MYR 500,000 (A\$150,000) which has been received by CBMM with the balance being facilitated by RNZ through various Equity and Debt Funding for the sum of MYR 14,500,000 (A\$ 4.85m) in which the Debt Funding will be a non recourse loan to CBMM shareholders and Directors and the guarantee will be solely provided by RNZ. The contribution of these funds by RNZ to the joint venture will be commensurate with the timing of equipment and working capital orders placed by CBMM.

The MYR 15m (A\$ 5m) funding by RNZ will be applied to the setup of a finished film, bag and printing facility in one of Malaysia's developing manufacturing hubs. These funds will finance Stages 1 & 2 of the facility and provide working capital for the joint venture. It is expected that Stage 1 will be completed by November 2011 with plant capacity of 1,500 tonnes pa. Stage 2 is expected to be completed by July 2012 and will double that capacity. The Plant will be scalable to 7,000 tonnes pa.

On injecting the full MYR 15m (A\$5m) RNZ will have a 51% equity interest.

Any additional funding will be contributed in accordance with each stakeholder's equity interest.

NOTE 25 RELATED PARTIES

A. Key Management Personnel

The names of persons who were Key Management Personnel of Cardia Bioplastics Limited at any time during the year are as follows:

Mr P J Volpe	Chairman
Dr F P Glatz	Managing Director
Dr J Scheirs	Director
Mr Chen Yi	Director and General Manager (China Operations)
Mr Graeme Ward	General Manager
Mr A Fernando	Chief Operating Officer
Mr Chen Chang Ping	Technical Director, China Operations
Miss R Bhambhani	Chief Financial Officer & Company Secretary

Remuneration

Information on remuneration of Key Management Personnel is disclosed in the Note 5.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 25 RELATED PARTIES (CONTINUED)

Transactions of Directors and Director-Related Entities Concerning Shares and Share Options

During the year, aggregate numbers of shares and share options of Cardia Bioplastics Limited acquired and/or disposed of by Directors of the parent entity or the consolidated entity or their Director-related entities from the Company were:

	Parent Entity	
	2011 Number	2010 Number
Acquisitions:		
Ordinary shares	32,535,037	6,260,000
Options expiring 30 June 2012	500,000	-
Disposals:		
Ordinary Shares	-	-
Options expiring 30 June 2011	102,151,271	-

Aggregate numbers of shares and share options of Cardia Bioplastics Limited held directly, indirectly or beneficially by Directors of the parent entity or the consolidated entity or their Director-related entities at the end of the reporting period were:

	Parent Entity	
	2011 Number	2010 Number
Ordinary shares	160,387,892	125,352,855
Options expiring 30 June 2012	500,000	-
Options expiring 30 June 2011	-	102,151,271

Other Transactions with Directors and Director-Related Entities

During the year, Cardia invoiced Botswana Metals Ltd \$7,895 (incl GST) (2010: NIL) for the provision of office and administration facilities. Mr. P J Volpe is Chairman and the major shareholder of Botswana Metals Limited ("BML").

On 10th January 2011, the Company has also entered into sub-lease agreement with BML in relation to the shared occupation of office premises. BML has invoiced Cardia \$18,206 (incl GST) (2010: NIL) for rent of office premises for the period up to 30 June 2011.

During the year, amount of \$18,644 (Ex GST) (2010: NIL) was paid to Excelpas Pty Ltd, a company controlled by Dr. John Scheirs for providing consultancy services to the Company.

Cardia has distribution agreement in place with Bio-Mart Pty Ltd, the Company which is controlled by relatives (children) of Mr. Volpe. The distribution agreement is on the identical commercial terms that apply to all the distributors. No commercial transactions have occurred with Bio-Mart Pty Ltd during the year.

Amounts owing from Directors and Director-related entities are disclosed in Note 9.

B. Wholly-owned group

The wholly-owned group consists of Cardia Bioplastics Limited and its wholly-owned controlled entities Cardia Bioplastics (Australia) Pty Ltd, Biograde (Hong Kong) Pty Ltd and Biograde (Nanjing) Pty Ltd. Ownership interests in these controlled entities are set out in Note 19.

Transactions between Cardia and other entities in the wholly-owned group during the years ended 30 June 2010 and 2011 consisted of interest-free loans advanced by Cardia and inter company sales and purchase transactions between Biograde (Nanjing) Pty Ltd and Cardia Bioplastics (Australia) Pty Ltd. Terms of repayment of loans from Cardia are at call.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 25 RELATED PARTIES (CONTINUED)

Aggregate amounts Loan receivables by Cardia from entities in the wholly-owned group at balance date:

	2011 \$	2010 \$
Receivables	10,027,682	6,985,743
Provisions for impairment	(4,652,013)	(4,647,843)
	<u>5,375,669</u>	<u>2,337,910</u>

Ownership Interests in Related Parties

Interests held in the following classes of related parties are set out in the following notes:

Controlled Entities Note 19

NOTE 26 FINANCIAL INSTRUMENTS

a) Financial Risk Management

The group's financial instruments consist mainly of deposits with banks, local money market instruments, and short term investments, accounts receivable and payable, loans to and from subsidiaries, bills and leases.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	Note	Economic Entity		Parent Entity	
		2011 \$	2010 \$	2011 \$	2010 \$
Financial Assets					
Cash and cash equivalents	8	4,154,064	1,718,012	3,546,622	1,264,935
Secured Loans	12	-	80,000	-	80,000
Loans and receivables	9	642,611	564,234	20,169	53,865
Total Financial Assets		<u>4,796,675</u>	<u>2,362,246</u>	<u>3,566,791</u>	<u>1,398,800</u>
Financial Liabilities					
Financial liabilities at amortised cost					
Trade and other payables	15	893,239	717,710	112,672	110,829
Total Financial Liabilities		<u>893,239</u>	<u>717,710</u>	<u>112,672</u>	<u>110,829</u>

The main purpose of non-derivative financial instruments is to raise finance for group operations.

Treasury Risk Management.

The Directors at their periodic Board Meeting analyse currency and interest rate exposure and evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

Financial Risks

The main risks the group is exposed to through its financial instruments are interest rate risk, foreign currency risk credit risk and liquidity risk.

Interest rate risk

Currently the Company's cash holding are on a variable rate basis.

Foreign currency risk

The group is exposed to fluctuations in foreign currencies arising from the payment of employment costs, sale and purchase of goods and services in currencies other than the group's measurement currency.

The group has minimised its major foreign currency risk exposure for payments in US Dollars through natural hedge, by applying US Dollars payments from its receivables in that currency.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 26 FINANCIAL INSTRUMENTS (CONTINUED)

For payments in all other foreign currencies, the Group has established that its exposure to foreign currency risk is not material at this stage.

Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at the end of the reporting period to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

The economic entity does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the economic entity.

Liquidity risk

The group manages liquidity risk by monitoring forecasted cash flows and ensuring that new funding facilities are in place either in the form of the issuing of new securities or establishing borrowing facilities.

Financial liability and financial asset maturity analysis

Economic Entity

2011	Weighted Average Effective interest rate	Floating interest rate	Fixed interest rate maturing			Non Interest bearing	Total
			1 year or less	1 to 5 years	Over 5 years		
	%	\$	\$	\$	\$	\$	\$
From 1 July 2010 to 30 June 2011							
Assets:							
Cash	2.64%	1,154,064	3,000,000	-	-	-	4,154,064
Loans & Receivables						642,611	642,611
Total financial assets		1,154,064	3,000,000	-	-	642,611	4,796,675
Liabilities:							
Trade & other payables		-	-	-	-	893,239	893,239
Total financial liabilities		-	-	-	-	893,239	893,239
Net financial assets		-	-	-	-	893,239	893,239

Economic Entity

2010	Weighted Average Effective interest rate	Floating interest rate	Fixed interest rate maturing			Non Interest bearing	Total
			1 year or less	1 to 5 years	Over 5 years		
	%	\$	\$	\$	\$	\$	\$
From 1 July 2009 to 30 June 2010							
Assets:							
Cash	1.82%	1,321,107	-	-	-	396,905	1,718,012
Secured Loans		-	-	-	-	80,000	80,000
Loans & Receivables						564,234	564,234
Total financial assets		1,321,107	-	-	-	1,041,139	2,362,246
Liabilities:							
Trade & other payables		-	-	-	-	717,710	717,710
Total financial liabilities		-	-	-	-	717,710	717,710
Net financial assets		1,321,107	-	-	-	323,429	1,644,536

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 26 FINANCIAL INSTRUMENTS (CONTINUED)

Parent Entity

2011	Weighted Average Effective interest rate	Floating interest rate	Fixed interest rate maturing			Non Interest bearing	Total
			1year or less	1 to 5 years	Over5 years		
	%	\$	\$	\$	\$	\$	\$
From 1 July 2010 to 30 June 2011							
Assets:							
Cash	2.19%	546,622	3,000,000	-	-	-	3,546,622
Loans & Receivable		-	-	-	-	20,159	20,159
Total financial assets		546,622	3,000,000	-	-	20,159	3,566,781
Liabilities:							
Trade & other payables		-	-	-	-	112,672	112,672
Total financial liabilities		-	-	-	-	112,672	112,672
Net financial assets		546,622	3,000,000	-	-	(92,513)	3,454,109

2010	Weighted Average Effective interest rate	Floating interest rate	Fixed interest rate maturing			Non Interest bearing	Total
			1year or less	1 to 5 years	Over5 years		
	%	\$	\$	\$	\$	\$	\$
From 1 July 2009 to 30 June 2010							
Assets:							
Cash	2.14%	1,264,473	-	-	-	462	1,264,935
Loans & Receivable		-	-	-	-	53,865	53,865
Secured Loan		-	-	-	-	80,000	80,000
Total financial assets		1,264,473	-	-	-	134,327	1,398,800
Liabilities:							
Trade & other payables		-	-	-	-	110,829	110,829
Total financial liabilities		-	-	-	-	110,829	110,829
Net financial assets		1,264,473	-	-	-	23,498	1,287,971

Trade and sundry payables are expected to be paid as follows:

	Economic Entity		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
Less than 6 months	893,239	717,710	112,672	110,829
6 months to 1 year	-	-	-	-
1 to 5 years	-	-	-	-
Over 5 years	-	-	-	-
	893,239	717,710	112,672	110,829

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 26 FINANCIAL INSTRUMENTS (CONTINUED)

I. Net Fair Values

Fair Value estimation

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying values as presented in the statement of financial position. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values derived may be based on information that is estimated or subject to judgment, where changes in assumptions may have a material impact on the amounts estimated. Areas of judgement and the assumptions have been detailed below. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded. In this regard, fair values for listed securities are obtained from quoted market bid prices. Where securities are unlisted and no market quotes are available, fair value is obtained using discounted cash flow analysis and other valuation techniques commonly used by market participants.

The carrying amount of financial assets and liabilities is approximately equal to net fair value.

Aggregate net fair values and carrying amounts of financial assets and financial liabilities at the end of reporting period.

	Foot note	Economic Entity		Parent Entity	
		2011 \$	2010 \$	2011 \$	2010 \$
Financial Assets					
Cash and Cash equivalents	(i)	4,154,064	1,718,012	3,546,622	1,264,935
Secured Loans	(ii)	-	80,000	-	80,000
Loans & Receivables	(i)	642,611	627,759	20,159	53,865
Total financial assets		4,796,675	2,425,771	3,566,781	1,398,800
Financial Liabilities					
Trade & Other payables	(i)	893,239	717,710	112,672	110,829
Total financial liabilities		893,239	717,710	112,672	110,829

The fair values disclosed in the above table have been determined based on the following methodologies

- (i) Cash and cash equivalents, trade and other receivables and trade and other payables are short-term instruments in nature whose carrying value is equivalent to fair value. Trade and payables exclude amounts provided for relating to annual leave which is not considered a financial instrument.
- (ii) Secured loan has been frozen to a fixed amount as disclosed in Note 12 (a), and fair value therefore approximates carrying value.

III. Sensitivity Analysis

Interest Rate Risk and Foreign Currency Risk

The group has performed a sensitivity analysis relating to its exposure to interest rate risk, foreign currency risk at the end of reporting period. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

Interest Rate Sensitivity Analysis

At 30 June 2011, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 26 FINANCIAL INSTRUMENTS (CONTINUED)

	Economic Entity		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
Change in profit				
- Increase in interest rate by 2%	34,702	30,211	27,506	25,301
-Decrease in interest rate by 2%	(34,702)	(30,211)	(27,506)	(25,301)
Change in Equity				
- Increase in interest rate by 2%	34,702	30,211	27,506	25,301
-Decrease in interest rate by 2%	(34,702)	(30,211)	(27,506)	(25,301)

Foreign Currency Risk Sensitivity Analysis

At 30 June 2011, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the US Dollar, Euro and Canadian Dollar, with all other variables remaining constant is as follows:

	Economic Entity		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
Change in profit				
- Improvement in AUD to USD by 5%	38,135	15,911	-	-
- Decline in AUD to USD by 5%	(38,135)	(15,911)	-	-
- Improvement in AUD to EURO by 5%	32,673	11,512	-	-
- Decline in AUD to EURO by 5%	(32,673)	(11,512)	-	-
- Improvement in AUD to CAD by 5%	10,915	10,954	-	-
- Decline in AUD to CAD by 5%	(10,915)	(10,954)	-	-
Change in Equity				
- Improvement in AUD to USD by 5%	38,135	15,911	-	-
- Decline in AUD to USD by 5%	(38,135)	(15,911)	-	-
- Improvement in AUD to EURO by 5%	32,673	11,512	-	-
- Decline in AUD to EURO by 5%	(32,673)	(11,512)	-	-
- Improvement in AUD to CAD by 5%	10,915	10,954	-	-
- Decline in AUD to CAD by 5%	(10,915)	(10,954)	-	-

The above interest rate and foreign exchange rate sensitivity analysis has been performed on the assumption that all other variables remain unchanged.

NOTE 27 COMPANY DETAILS

The principal place of business and registered office is:

Unit 18, 35 Dunlop Road, Mulgrave, Victoria, Australia 3170.

1. The Directors declare that the financial statements and notes, as set out on pages 22 to 68 and remuneration disclosures that are detailed within the Remuneration Report in the Directors' Report, are in accordance with the *Corporations Act 2001* and:
 - a. comply with Accounting Standards, the Corporations Regulations 2001; and
 - b. give a true and fair view of the financial position as at 30 June 2011 and of the performance for the year ended on that date of the company and economic entity.
 - c. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.
2. The Chairman and Company Secretary have each declared that:
 - a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
 - b. the financial statements and notes for the financial year comply with the Accounting Standards; and
 - c. the financial statements and notes for the financial year give a true and fair view.
3. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.



Pat Volpe
Director

Mulgrave
Dated this 29th day of September 2011



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CARDIA BIOPLASTICS LIMITED AND CONTROLLED ENTITIES

Report on the Financial Report

We have audited the accompanying financial report of Cardia Bioplastics Limited ("the Company"), which comprises the statements of financial position as at 30 June 2011, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the economic entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Sydney
Melbourne
Brisbane
Perth
Adelaide
Auckland

Level 1, 465 Auburn Road, Hawthorn East VIC 3123
PO Box 185, Toorak VIC 3142
Telephone: +61 3 9824 8555 • Facsimile: +61 3 9824 8580
williambuck.com

William Buck is an association of independent firms, each trading under the name of William Buck across Australia and New Zealand with affiliated offices worldwide. Liability limited by a scheme approved under Professional Standards Legislation other than for acts or omissions of financial services licensees.

Praxity
ASSOCIATED
GLOBAL ALLIANCE OF
INDEPENDENT FIRMS



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CARDIA BIOPLASTICS LIMITED AND CONTROLLED ENTITIES

Auditor's Opinion

In our opinion:

- a. the financial report of the Cardia Bioplastics Limited is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the company's and economic entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Emphasis of Matter

Without qualification to the opinion expressed above, attention is drawn to Note 1 in the financial report which indicates the economic entity incurred a net loss of \$3,323,324 during year ended 30 June 2011 (30 June 2010 \$5,553,902) and, as of that date, the Directors have made an assessment that the cash balance of \$4,154,064 (30 June 2010: \$1,718,012) will not be sufficient to meet the forecasted operational and capital expenditure without further funding being raised. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the economic entity's ability to continue as a going concern and therefore the economic entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 17 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with s 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Cardia Bioplastics Limited for the year ended 30 June 2011, complies with s 300A of the *Corporations Act 2001*.

Matters Relating to the Electronic Presentation of the Audited Financial Report

This auditor's report relates to the economic financial report of Cardia Bioplastics Limited for the year ended 30 June 2011 included on Cardia Bioplastics Limited's web site. The company's directors are responsible for the integrity of the Cardia Bioplastics Limited's web site. We have not been engaged to report on the integrity of the Cardia Bioplastics Limited's web site. The auditor's report refers only to the financial report and remuneration report. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

William Buck.

William Buck Audit (VIC) Pty Ltd
ABN 59 116 151 136

J.C. Luckins
Director

Dated in Melbourne on this 29th day of September 2011

The shareholder information set out below was applicable as at 23 September 2011.

(A) DISTRIBUTION OF EQUITY SECURITIES

Analysis of numbers of equity security holders by size of holding:

			Ordinary Shares	Options 30 June 2012
1	-	1,000	89	23
1,001	-	5,000	330	61
5,001	-	10,000	325	36
10,001	-	100,000	1,099	142
100,001	and	over	878	132
			2,721	394

There were 1,335 holders of less than a marketable parcel of ordinary shares.

(B) EQUITY SECURITY HOLDERS

The names of the twenty largest holders of quoted equity securities are listed below:

Fully Paid Ordinary Shares	Number Held	Percentage of Issued Shares
POLARITY B PTY LTD	168,641,803	12.57
VERMAR PTY LTD	87,000,000	6.48
I E PROPERTIES PTY LTD	35,936,038	2.68
GROWTH TECH INTERNATIONAL PTY LTD	33,333,334	2.48
ANDAMA HOLDINGS PTY LTD	31,200,000	2.33
SANDHURST TRUSTEES LTD	22,492,675	1.68
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	20,812,690	1.55
CITICORP NOMINEES PTY LIMITED	20,325,739	1.52
G&N LORD SUPERANNUATION PTY LTD	18,500,000	1.38
CHEN YI	18,500,000	1.38
MRS JACLYN STOJANOVSKI & MR CHRIS RETZOS & MRS SUSIE RETZOS	17,000,000	1.27
KIRZY PTY LTD	13,000,000	0.97
AUSTRALIAN BRANDS PTY LTD	12,990,000	0.97
MR MATHEW CHARLES NEWHAM	12,135,000	0.90
SAM GOULOPOULOS PTY LTD	12,000,000	0.89
JIMINY PTY LIMITED	11,000,001	0.82
MR KWOK SIN POON & MRS KA MING MARIE WONG	11,000,000	0.82
COMSEC NOMINEES PTY LTD	10,755,055	0.80
INSYNC INVESTMENTS PTY LTD	10,000,000	0.75
SOMNUS PTY LTD	10,000,000	0.75
	576,622,335	42.97

(B) EQUITY SECURITY HOLDERS (CONTINUED)

Options-30 June 2012	Number Held	Percentage of Issued Options
I E PROPERTIES PTY LTD	21,984,010	9.83
ANNA CARINA PTY LTD	9,449,058	4.23
MRS JACLYN STOJANOVSKI + MR CHRIS RETZOS + MRS SUSIE RETZOS	8,793,604	3.93
POLARITY B PTY LTD	7,580,000	3.39
PATICOA NOMINEES PTY LTD	6,871,432	3.07
KIRZY PTY LTD <SPRINGDALE A/C>	6,678,537	2.99
G & N LORD SUPERANNUATION PTY LTD	6,595,203	2.95
SOMNUS PTY LTD	5,276,163	2.36
INSYNC INVESTMENTS PTY LTD	5,276,163	2.36
TEMPO CAPITAL PTY LTD	5,276,163	2.36
T E & J PASIAS PTY LTD	5,000,001	2.24
SAM GOULOPOULOS PTY LTD	5,000,000	2.24
ATLANTIS MG PTY LTD	5,000,000	2.24
J P MORGAN NOMINEES AUSTRALIA LIMITED	4,396,802	1.97
PACIFIC NOMINEES LIMITED	4,396,802	1.97
BALARELLI PTY LTD	4,396,802	1.97
ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD	4,330,309	1.94
SANDHURST TRUSTEES LTD	4,047,614	1.81
IDAMENEO (NO 79) NOMINEES PTY LIMITED	4,000,000	1.79
COMSEC NOMINEES PTY LIMITED	3,710,000	1.66
	128,058,663	57.26

(C) SUBSTANTIAL SHAREHOLDERS

Substantial shareholders in the Company are:

	Number of Ordinary Shares Held	Percentage of Issued Shares
POLARITY B PTY LTD	168,641,803	12.57
VERMAR PTY LTD	87,000,000	6.48

(D) VOTING RIGHTS

The voting rights attaching to each class of equity security are set out below:

Ordinary Shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Options

No voting rights.