



MAY 04 MARKET STATS:

CNN

- Market Price 4.5¢
- Market Cap \$7.0M

CNN has now moved to the industrial main board of ASX

ARD

- Market Price 7.0¢
- Market Cap \$5.7M

ARD is now listed on the NSX

INVESTOR UPDATE Issue No. 2 - May 2004

Welcome to the second edition of Cardia's Investor Update newsletter. Thank you to the more than 50 shareholders who took the time and effort to give us positive feedback on the first newsletter in February. This edition will update you on the significant progress we have achieved in meeting our strategic objectives in the last three months and Cardia's present focus on its core Aquenox business. As market conditions allow, the board is steadily implementing its strategy to take "start-ups" to "stand-ups". Cardia's strategy is to provide its remaining business units with the capital funds they need to grow and then to divest them through the de-merger process to add value for our shareholders. – Pat Volpe, executive chairman

Key corporate highlights to May 2004

- Subject to shareholder approval, existing **Cardia optionholders** will soon be given the opportunity to subscribe to a new option issue on a one-for-one basis. The new 31 December 2007 options are exercisable at 10 cents and will have an issue price of quarter of a cent (\$0.0025) per option.
- Completed the "in specie" distribution of Cardia's holding in **Dia-B Tech Ltd** to both shareholders and optionholders on a one-for-three basis. The timing of Dia-B's IPO will depend on prevailing market conditions. Dia-B is considering raising extra capital to fund its ongoing ISF402 research project.
- **A-Cap Resources Ltd** has successfully listed on the Newcastle Stock Exchange and given Cardia shareholders who invested in this spin-off a spectacular increase of **600%** from the initial issue price.

Key operational highlights to May 2004

- **Aquenox** (100% owned by Cardia) has made a substantial breakthrough into the Chinese water treatment market and is now focusing on expanding the scope of its core technology to become a complete provider of environmental control solutions for the water treatment and water recycling industries.
- Since February, the Aquenox business unit under CEO Joseph Tigani has expanded its Melbourne-based operations to include two technical experts and three salespeople.

Key milestones in the de-merger process

Cardia Technologies sets out to identify and invest in companies involved in innovative R&D technologies; to provide them with the initial capital and management they need to further

grow and develop; to recapitalise these businesses via the IPO process and then to release full-market value for shareholders.

The following table highlights the progress of each of the business units:

A-Cap (market cap = \$5.7m)	Listed on Newcastle Stock Exchange www.newsx.com.au (code ARD) on March 25
Dia-B Tech Limited (CNN retains 3%)	Completed "in specie" return. Company in process of raising equity either through private placement or IPO
Bioglobal (41.7% owned)	Prospectus in progress. Company in process of raising equity either through private placement or IPO. Cardia holding is about \$3.74m based on 17c last issue price
Natural Pharmacy (49% owned)	Board re-evaluating its position in this investment. Still getting royalty entitlement of 1% on Australian & New Zealand Sales.
Aquenox (100% owned)	Restructured business. Focus expanded to total environmental solutions provider. New management, technical and sales staff added

A-Cap Resources Ltd lists and shows hefty increases

A-Cap Resources (NSX code: ARD) made a spectacular debut on the Newcastle Stock Exchange on March 25 with the one-cent paid shares trading 600% higher at 7 cents in May. Cardia shareholders who took up the one-for-two non-renounceable offer in A-Cap are doing very well. A-Cap raised only \$723,627 in the float but the company's market capitalisation has already grown to \$5.7 million.

A-Cap has exploration interests in Botswana and Queensland and may seek to apply for mining tenements in China, where it has recently set up Gansu Sino-Australian Mineral Resources Development Company Ltd. Oxiana, Michelago and Tianshan Goldfields have recently secured Chinese resource deals.

Galley Gold, the operator of the Jim's Luck Gold prospect in Botswana, has advised they will commence a drill program on the prospect and the results should be known by August.

A-Cap is looking to appoint an independent geological consultant to commence a feasibility review on the inferred 380,000t at 2% nickel discovered by Falconbridge (Canadian) in their drill program conducted in early 1990s.

Aquenox (100%) becomes complete environmental-control solutions provider

The Aquenox division of Cardia Technologies Ltd (formerly WaterPower Systems) has been restructured by its new management to become a total environmental-control solutions provider – with a focus on the water treatment and water recycling industries.

A key strength of the new Aquenox is its ability to identify and deploy the most appropriate technologies for specific applications. We are now partnering with other technologies to provide a broad suite of environmental-control solutions. To our core electro coagulation (EC) technology we have added reverse osmosis/desalination, UV, aeration and remote sensing and monitoring to the expanded portfolio.

This cross-fertilisation of technology ideas allows Aquenox systems to offer total solutions to the following problems of environmental degradation: minimising the level of contaminants in industrial waste discharge; contain and treat salinity; treat algal and other toxins in open waterways; and treat and recycle "grey" wastewater from a wide range of industrial and commercial processes.

Some of the advantages of the Aquenox solution are its application to remove heavy and toxic dissolved metals such as cyanide, chromium, arsenic, zinc, lead, and aluminum; rare earths; radioactives such as uranium; blue-green algae, biologicals, organics and inorganics; inks and dyes; and sewerage polishing. To demonstrate the versatility of the total Aquenox solution, the company is setting up a series of tanks at its Tullamarine facility that will treat various contaminated waters, process them, then pump the reclaimed and recycled waters into a fish tank – where live fish will be housed.

Under CEO Joseph Tigani, Aquenox's operations at Tullamarine, near Melbourne, are now structured into the following specific focus areas – engineering and R&D, analytical and method development, sales and marketing and field services. In Melbourne, a chemist, an engineer and three salespeople have been added to the staff. In China and Hong Kong, 12 people are now working in laboratories, in engineering, on design and in our marketing facilities.

Meanwhile, Aquenox has made a substantial breakthrough into the water treatment market in China with the sale of two water treatment units to Sinopec, China's biggest oil company. The deal – worth \$30,000 – was between Aquenox, Cardia's wholly-owned water treatment subsidiary in China and Sinopec's Jiangnan Oilfield Company.

The two Aquenox units will be treating the waste oil water pumped from their oil wells in central China. The units are designed to separate oil and other impurities from wastewater and the combined systems will treat about 30 tonnes a day.

Dia-B Tech Ltd stands up for diabetes and obesity research

Cardia shareholders have now received the "in specie" distribution of shares in Dia-B Tech Ltd, the new vehicle for all its diabetes and obesity research interests. The rights issue distribution of about 48.2 million shares in Dia-B was on the basis of one new share in Dia-B for every three Cardia shares held. Dia-B will become entitled to acquire all of Cardia's present interests in the various diabetes and obesity technologies once it is listed on the ASX.

The new stand-alone company is now in the process of reviewing alternative capital-raising ways to fund its ISF402 research ahead of the planned IPO. The three other projects are subject to Dia-B's successful listing on the ASX. Timing of this will depend on prevailing market conditions.

About 90% of patients have type 2 or adult-onset diabetes, while the others have type 1 diabetes, caused by a genetic inability to produce enough insulin, which regulates glucose. Abnormally high glucose levels can eventually lead to organ damage involving the nervous system, kidneys, eyes and blood circulatory system.

Dia-B has the following projects in the pipeline:

- IDI/Monash University Insulin Sensitising Factor ISF402 for Type 2 diabetes
- IDI/Monash University Bafilomycin Toxin Screening Kit for Type 1 diabetes (IPO)
- Intramed Ltd – Natural Product IM014 for Type 2 diabetes (IPO)
- Baker Heart Research Institute CDA1 for diabetic complications (IPO)

Bioglobal (41.7%) poised for next of growth

Bioglobal Ltd is another Cardia investment that has moved rapidly from “start-up” to “stand-up”. Bioglobal was set up to develop and market biorational (environmentally-safe) insecticides for the global agricultural, animal health and pest-control markets. Cardia has maintained its 41.7% interest (based on last issue price, Cardia holding is worth about \$3.74 million) in Bioglobal but the company will soon seek to raise extra capital to fund its research and development and to pursue its growth strategy. A prospectus is prepared for the float of Bioglobal on the ASX – but equity may also be raised through a private placement to professional investors.

Bioglobal’s main focus is on:

- Its 13.57% interest in Biocontrol Ltd, a pheromone mating-disruption technology company, which sells 90% of its products in North and South America. Global sales so far this year were worth \$16 million at current exchange rates.
- Commercialisation of its market-ready products including the LuciTrap sheep blowfly trap that is exclusively marketed in Australia and NZ by Bayer and the BioAttract brand of “attract and kill” technology for the major moth pest in cotton and grain legumes, fruit and vegetables.
- Its R&D product development portfolio.

Natural Pharmacy (49%) local sales on track but investment being reviewed

While sales are on track to repeat last year’s performance by our joint venture partner (Transherb Extracts Pty Ltd), who holds the marketing rights for Australia and New Zealand. The directors of Cardia are presently reviewing the company’s investment in Natural Pharmacy Pty Ltd, which markets established brands of herbal pharmaceuticals, natural healthcare and dietary supplements worldwide. Products target arthritis, insomnia, depression, PMT, menopause, liver cleansing, libido, eczema, acne, hay fever and memory improvement and many more.

Natural Pharmacy gets a royalty (last year \$31,389) on sales of the Phytomedicine brand that is sold mainly to healthcare practitioners. In the Australian and New Zealand market, sales have had reached \$1.9 million in the nine-months to March 31, 2004 (\$2.5 million for the year to June 30, 2003). However, international sales continue to decline. This has been caused as much by the company’s limited international marketing infrastructure and level of working capital, as the higher currency exchange rate. A decision is expected to be made on this investment in the next six months.

About Cardia Technologies Ltd

Cardia Technologies Limited (ASX:CNN) acts as an incubator for businesses specialising in next generation technologies. Its core competency is in identifying and investing in emerging markets and in creating the best corporate structure for each of its business units that will generate shareholder value. The company has four business units including medical biotechnology, environmental technologies, agricultural biotechnology and natural pharmaceuticals. Cardia Technologies Limited has been listed on the Australian Stock Exchange since 1996 and has its headquarters in Melbourne, Australia.

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