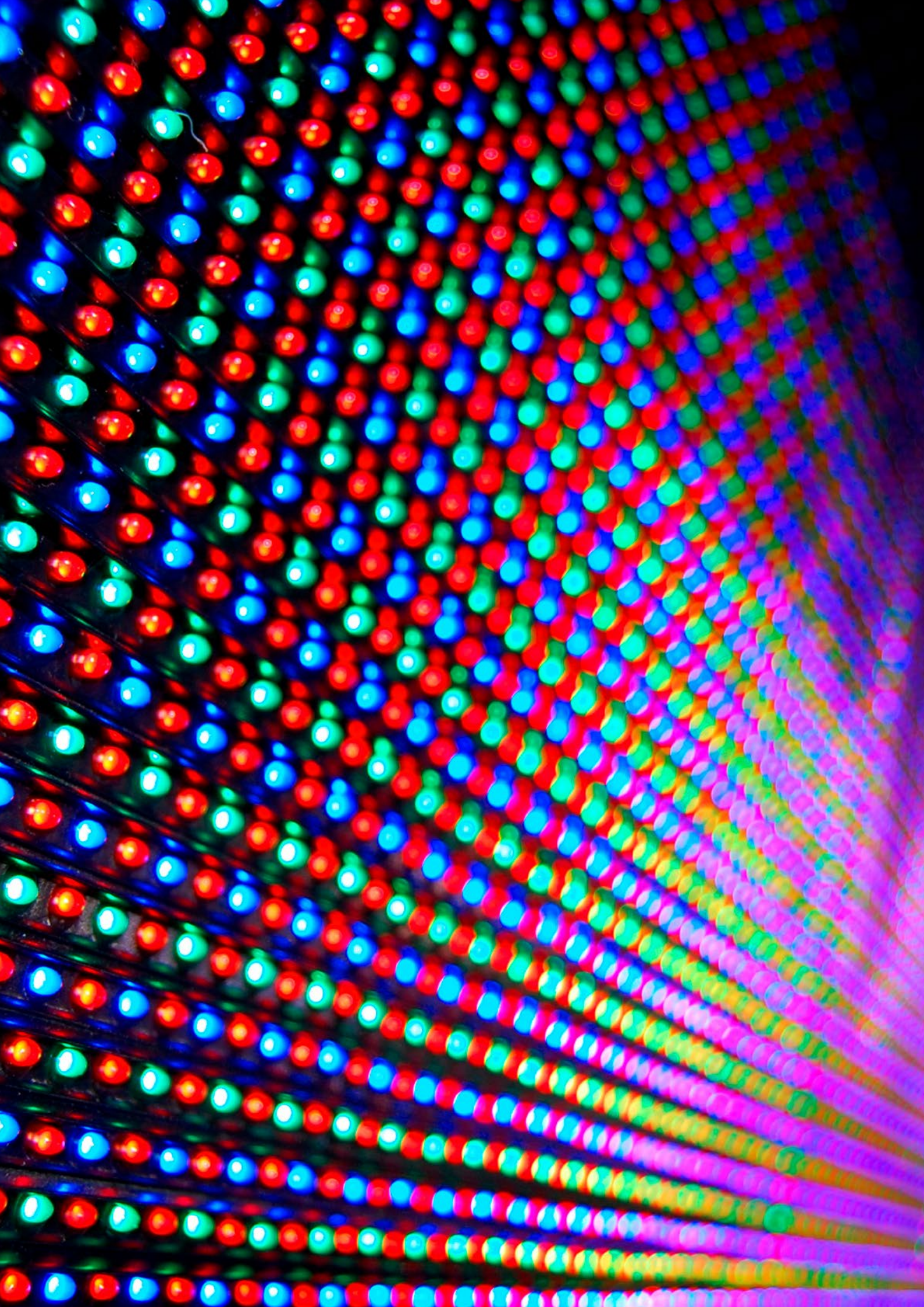




Annual Report 2016

Leading provider of
innovative technologies,
products and solutions



Stokes is a leading provider of innovative technologies, products and solutions, with offices and representatives throughout Australia. With strong capabilities in servicing national customers, Stokes provide innovative LED lighting products, audiovisual solutions and accessories to the commercial electrical industry.

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01

CHAIRMAN & MANAGING DIRECTOR'S REPORT

2016 witnessed a strong focus in Technologies Research and Development, where the company continues to develop cutting edge products in order to differentiate from its competitors.

On behalf of the board and management team, I am pleased to report another impressive year as the company continued its long history of evolution, keeping up with fast changing trends in the electrical distribution industry to grow and expand after the decision to transform its operations from old world manufacturing to new world technologies.

The year has been highlighted by revenue growth from \$3.5m to \$15.4m representing a 338% increase. Order intake for the year reached \$17.6m and the companies work in hand increased from \$500k at the beginning of the year to \$3.8m at 30 June 2016. Just as importantly the second half of the year saw sales double and the first half EBITDA of \$1.2m was made into a second half EBITDA \$0.3m resulting in a \$1.5m turnaround.

Other highlights include the acquisition of Audiovisual and IT distributor Duetek and securing the Australian distribution rights for AT&T structured cabling systems and the rights to the AEC exterior lighting range expanding the company's product offering and customer base.

The AV Integration and LED lighting businesses continue their expansion with numerous large projects having been won and completed and many more in the pipeline. The company recently announced it was awarded the contracts to supply and install the audiovisual package for both Geelong's Simonds stadium and Melbourne Airports T2 upgrades. The company now employs 43 highly qualified staff across three states and is well placed to take advantage of growth opportunities as they arise.

The company also has a strong focus on R&D and continues to develop cutting edge products in order to differentiate from its competitors. During the year we commercialised the first sales of the "Ascendancy" control system and this product has been earmarked for export over the next 12 to 18 months. The company also has a number of other products in the development pipeline which will form part of the foundation for future sustainable growth.

In March this year the company announced a senior management restructure in order to facilitate an acquisition strategy to complement its already proven organic growth story with a medium term target of achieving \$50m in revenues helping us achieve critical mass. We believe we are well placed to consolidate what is a highly fragmented industry with opportunities to capture significant growth and market share. The company is well advanced in a number of transactions in this area.

Once again I would like to thank all stakeholders including staff, customers, suppliers and shareholders for allowing us the time to build on the foundations established over the past three years. We are now focused on the year ahead with many projects in the pipeline. The company is well positioned to take advantage of further acquisition opportunities and also to continue the development foothold within the commercial electrical industry.



Mr Peter Jinks
Executive Chairman & Managing Director

Stokes will continue its growth of current activities and look to its next phase of expansion via acquisition opportunities in its core lighting, audiovisual and IT distribution businesses

02

PROFILE REVIEW

Stokes delivers audiovisual and lighting solutions to the commercial, education, retail, finance and construction markets. Led by an industry renowned management team, the company's qualified engineers and technicians provide total service and support solutions in the design, installation and commissioning of audiovisual, intelligent lighting and control solutions. We rely on our people, their enthusiasm, ability and commitment to maintain and build on our future success.

2016 Highlights

01

338% Revenue growth from \$3.5m to \$15.4m

02

Strengthening acquisition of Dueltex, an AV and Telecommunications product business, providing Stokes with a broader product range, additional resources and extensive customer database

03

Appointed national distributor of AT&T cabling systems. State-of-the-art LAN cabling solutions and components in copper, optical fibre and data centre for enterprise customers

04

Restructuring of executive leadership team to accommodate major changes to the business over the past 2 years

05

Continued R&D focus with development of cutting edge technology products

06

Commercialised ascendancy product sales with export opportunities

07

Project pipeline continues to expand

With over 50 years' collective experience, Stokes Technologies is one of the most experienced players in the commercial audiovisual and lighting industry

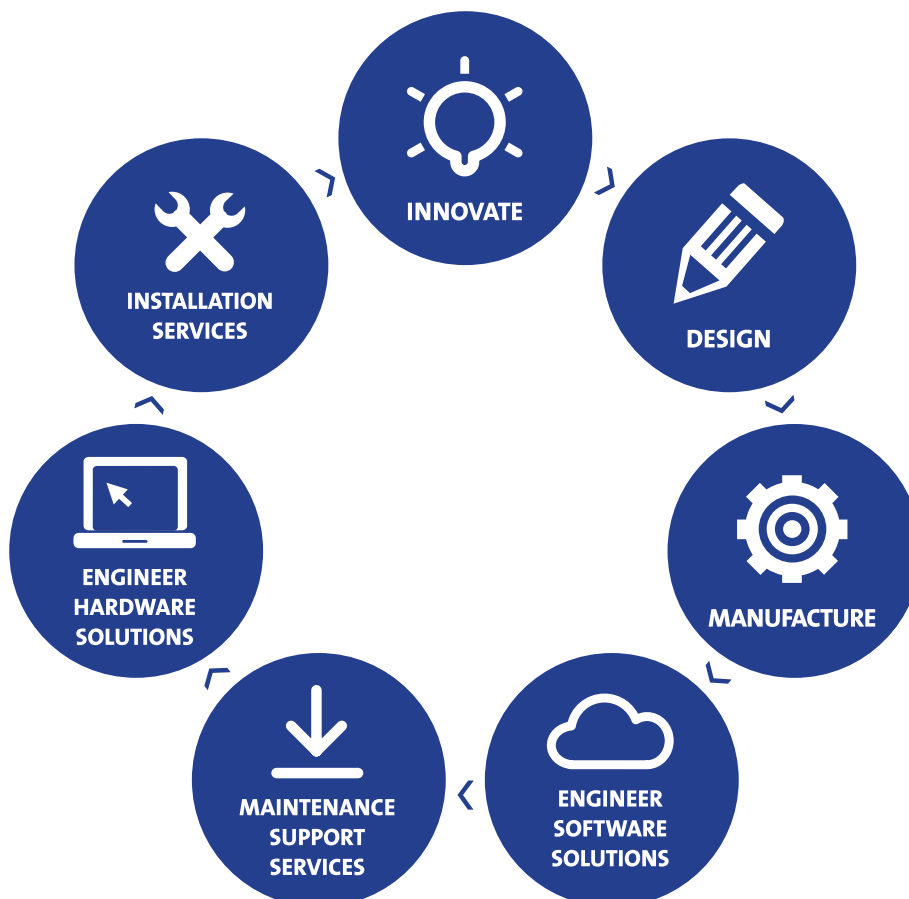
Audiovisual Solutions

- › Display and projector systems
- › Interactive whiteboards
- › Specialist controlled lighting
- › Public address systems
- › Video and audio conferencing
- › Touch panel control
- › Collaboration technology products
- › Service, maintenance and support contracts

Lighting and Building Automation

- › Lighting design engineering and solutions
- › Lighting control management
- › Energy efficiency advisers
- › Lighting product recommendations
- › LED lighting solutions
- › Architectural LED light panels
- › Service, support and maintenance services

Our Approach





Stokes provide the full spectrum to meet the simplest or most complex audiovisual and lighting integration project, including; system design, installation, project management, programming and engineering support



03

PROJECT INSIGHTS

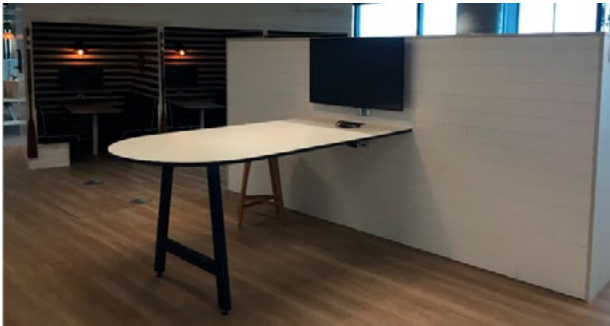
The Stokes engineering team will simplify your audiovisual and lighting project solution. Audiovisual systems include; handheld remotes, wall mounted, or complex multi-faceted control systems. Complete turn-key lighting installations and retrofit services are also available as part of our recommendations, as well as the design, installation and commissioning of intelligent, automated lighting solutions across both interior and exterior lighting and other energy efficient lighting products.



Zendesk

Stokes were contracted for the supply, integration and commissioning of the audio visual equipment at Zendesk's impressive three floor office fit out. The office comprised of a large number of small meeting spaces, reception area and three large conference rooms with VOIP and Video Conference capabilities. One floor containing a multi-function space, welcome area and bar all linked through a fully customisable control system and 16 x 16 audio visual matrix. The space

also contains video conference facilities with recording and streaming capabilities with distributed audio coverage and wired/wireless microphone systems. Great consideration was required for the integration of the proposed solution due to the heritage listing of the building. Through extensive consultation and outstanding project management, the end result exceeded the client's expectations and delivered a world class office environment.



Porter Davis

Engaged by the Porter Davis Group to provide the design and implementation of the Audio Visual requirements for their new offices, the team at Stokes engineered multiple solutions for spaces ranging from small huddle spaces through to joinable meeting spaces, ensuring that each area provides maximum functionality and value for money. Some of the technologies rolled out were a simple to use keypads that had a unified design. The provision of simple connectivity to wireless presentation devices also ensured the removal of bulky interconnecting cables. As part of the Porter Davis experience, there were a number of small FOH meeting rooms designed for customer interaction and sales development, these rooms were fitted with a fully integrated room booking system that streamlined the process of building planning and sales with the end client. The entire project has received outstanding reviews by all staff at Porter Davis as they appreciate the simplicity of the system provided allowing them more time to achieve their daily goals without unnecessary disruption due to technical issues.



Gardiner Railway Station

In the next few years the Level Crossing Authority will oversee the removal of 50 dangerous and congested level crossings. The Victorian Government has allocated \$2.4 billion for approximately 20 level crossings by 2018. Construction has already begun on several sites including the recently completed Burke Road in Glen Iris. The project has some major benefits including: easier access, safety improvements, more reliable roads, pathways and cycling paths and reduced congestions. Stokes have been a part of the modern transport interchange upgrade providing innovative LED lighting technology where motorists and pedestrian are now experiencing significant safer and faster travel throughout the area. Furthermore, the carpark at the station was also upgraded as part of the works which has now provided a safer environment for commuters. Stokes project participation will also involve the supply of innovative LED lighting solutions for North Road in Ormond, McKinnon Road in McKinnon and Centre Road in Bentleigh.

Together, with the collective strength of Stokes' partners and strong expertise in many niche markets, Stokes offer end users a total converged infrastructure solution for – audio and video solutions, lighting design, intelligent building automation and energy management solutions

04

DIRECTORS' BIOGRAPHIES

Our objective over the next coming year is to grow a dynamic organisation, driven by improving shareholder returns



Peter Jinks Executive Chairman & Managing Director

Peter was appointed to the Stokes board and management team in October 2012. As at March 2016 Peter's role changed to take up the role of Executive Chairman & Managing Director where his previous experience will be invaluable in organically growing Stokes over the coming years.

In true entrepreneurial style Peter co-founded the company KLM Group Limited with his brother Greg Jinks in 1981 and was Managing Director until August 2012. The 'duo brothers' built KLM Group with an enviable reputation as one of Australia's foremost electrical and communications provider. KLM is acknowledged as a company with a technological edge and provides services to the Construction, Defence, Government, Financial, Commercial and Infrastructure markets.

Peter has been extensively involved in the industry for over forty years' as a leader, manager, industry NECA council member, and executor of high level policy, resource, operational and strategic visions.

Peter has vast experience in technical services, specifically in electrical, data, audiovisual consultation and management.

Peter was crucial to the positioning of KLM Group as one of Australia's major communications and data network infrastructure contractors. KLM was established in 1981 as a small commercial electrical contracting business. By 2003 KLM had revenues of \$36 million and listed on the ASX. Revenues continued to grow and by 2010 KLM had a turnover of \$160 million. KLM was acquired by ASX listed Programmed in 2010. KLM specialised in voice and data communications, digital surveillance systems, building automation and high tech audiovisual installations.

Peter has more than 40 years' experience in the electrical industry, leading service and technology businesses across both private and public entities with streamlined efficiencies.



Con Scrinis Executive Director

Mr Scrinis was the founder and Managing Director of Moonlighting a commercial and Industrial lighting manufacturer established in 1991.

Moonlighting went on to become the pre-eminent lighting supplier to major lighting projects throughout Australia. Projects included MCG redevelopment, Docklands Stadium, Federation Square, along with numerous hospitals, schools and multi story buildings.

Moonlighting had sales offices in all states of Australia and manufacturing facilities in Victoria and South Australia. Moonlighting employed over 200 staff with annual sales exceeding \$30m. In 1997 Moonlighting developed the first LED traffic light to receive Australian standard approval.

LED traffic lights have now been retrofitted to approximately 60% of all intersections around Australia. Moonlighting was sold to ASX listed Gerard Lighting in February 2004.

Mr Scrinis then established and was joint Managing Director of ASX listed Traffic Technologies Limited. Con played a dominant role in building up the Company and was the key driver behind the formation and growth of the business. He implemented and effected the Company's initial acquisition of the traffic management business Traffic Services Australia in August 2004 and was instrumental in completing the reinstatement of the Company on the ASX in January 2005.

Mr Scrinis completed fifteen further acquisitions creating a business with revenues of over \$100m and in the process creating Australia's largest traffic products and services company.

Mr Scrinis is an experienced business builder, manager and company director. Founded and operated large businesses covering manufacturing, electrical, technology and services over a period of 20 years. Mr. Scrinis has strong leadership skills and has successfully completed over 40 business acquisitions/disposals with a proven track record in delivering stakeholder returns.



Greg Jinks Executive Director

Greg was appointed to the Stokes Board and Management team in October 2012. Greg has specific responsibility for Stokes strategic and business development.

Greg was also the entrepreneurial co-founder of KLM Group and, with his brother, was a key driver of a national service business with 800+ employees that has become one of Australia's major communications and data network infrastructure contractors.

The duo brothers established KLM Group in 1981 as a small commercial electrical contracting business. By 2003 KLM had revenues of \$36 million and listed on the ASX. Revenues continued to grow and by 2010 KLM had a turnover of \$160 million.

KLM was acquired by ASX listed Programmed Maintenance in 2010. KLM specialised in voice and data communications, digital surveillance systems, building automation and high tech audiovisual installations.

Greg played a pivotal role with his involvement in company's industry and government accreditations including vendor relationship management for the majority of industry Vendors.

His involvement in both the current and emerging technologies also complemented the company's growth strategy focusing on building business in core service offerings whilst integrating superior technological products, providing KLM Group with a key differentiator in the marketplace.

Greg has more than thirty-five years' experience in the telecommunications sector particularly in the area of electrical, data cabling networks, voice, laser, microwave wireless products and the supply of high tech audiovisual installations.

05

CORPORATE DIRECTORY

Directors

Peter Jinks
Con Scrinis
Greg Jinks

Secretary

Hemant Amin

Auditor

Pitcher Partners

Solicitors

K&L Gates
525 Collins Street
Melbourne,
Victoria 3000
Tel (03) 9640 4354
Fax (03) 9205 2055
Website www.klgates.com

Stokes Registered Office

53 Stanley Street
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Victoria 3003
Tel (03) 9289 5000
Fax (03) 9289 5050
Website www.stokes.com.au
Email info@stokes.com.au

Share Registry

Computershare Investor Services
452 Johnston Street
Abbotsford, Victoria 3067
GPO Box 2975
Melbourne, Victoria 3001
Investor Enquiries 1300 850 505
Tel (03) 9415 4000
Fax (03) 9473 2500

Australian Business Number

24 004 554 929



Our unique culture
and approach deliver
enduring results,
as well as great life
work balances for
our employees

06

FINANCIAL REPORT

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Directors' Report

The directors present their report together with the financial report of the consolidated entity consisting of Stokes Limited and the entities it controlled, for the financial year ended 30 June 2016 and auditor's report thereon.

Directors

The names of each of the directors of the company in office during or since the end of the financial year are set out below, together with their qualifications, experience and special responsibilities.

Peter Jinks - Managing Director and Chairman

Peter is Managing Director and Chairman of the Company and has specific responsibility for operations and administration. Peter co-founded the KLM Group with Greg Jinks, in 1981 and has been involved in the management of the business from its inception. He has over thirty plus years experience in technical services, specifically in electrical, data and communication consultation and management. Peter has been crucial to the positioning of the KLM Group as one of Australia's major communications and data network infrastructure contractors.

Peter was appointed as non-executive director and chairman in October 2012 and appointed as Managing Director on 8 March 2016. Peter Jinks has not been a director of any other listed companies during the 3 years ending 30 June 2016.

Greg Jinks - Executive director

Greg is Executive Director of the Company and has specific responsibility for strategy and business development. Greg was a cofounder of the KLM Group with Peter Jinks, was a key driver of a business that has become one of Australia's major communications and data network infrastructure contractors. Greg has more than twenty-five plus years experience in the telecommunications sector particularly in the area of cabling and infrastructure, voice and laser and microwave wireless products.

Greg was appointed as director of the Company in October 2012. Greg Jinks has not been a director of any other listed companies during the 4 years ending 30 June 2016.

Con Scrinis - Executive director

Mr. Scrinis has an extensive background in the electrical and manufacturing industries along with a proven ability to restructure and build sustainable businesses.

Mr. Scrinis was the founder and managing director of Moonlighting Pty Ltd, a commercial and industrial lighting manufacturer for 13 years. Moonlighting employed over 200 staff with annual sales exceeding \$30 million before being sold to ASX listed Gerard Lighting in February 2004. Mr. Scrinis then founded and was joint Managing Director of ASX listed Traffic Technologies Limited for 4 years (ASX:TTI). He spearheaded a rapid expansion consolidating the fragmented traffic services area. TTI became the leading traffic products company in Australia with revenues exceeding \$100 million per annum and over 1500 employees.

Mr. Scrinis was appointed as director of the Company in October 2012 and he is also a director of Beauty Health Group Ltd since December 2011. Mr. Scrinis maintained his role as Managing Director until 8 March 2016 when he took on a role of executive director responsible for acquisition opportunities.

Company Secretary

Hemant Amin

Hemant Amin is a certified practicing accountant. Hemant has over 29 years of accounting and business experience and has worked for both large multinational and public companies as well as smaller family owned operations. Hemant now works as a management consultant. His most recent role was as CFO to The Traffic Group.

Review of Operations

The company has completed an impressive year as the business continues to grow and expand following the decision to transform its operations from old world manufacturing to new world technologies. In July 2015 the company completed the sale of the appliance parts business. In September 2015 the company acquired audio visual & IT distributor Duelttek to complement its existing electrical businesses of audio visual integration and lighting distribution.

All divisions have grown rapidly in the year to 30 June 2016 with revenues increasing from \$3.5 million to \$15.4 million in the year. In April 2016 Duelttek was appointed the Australian distributor for AT&T structured cabling products further adding to an extensive product range in order to service our client's needs.

The company continues to invest in R&D and continues to develop cutting edge products in order to differentiate from its competitors. The company now employs 45 highly qualified staff across three states and is well placed to take advantage of growth opportunities as they arise.

The consolidated group made a profit after tax of \$54,517 for the year ended 30 June 2016 (2015: loss of \$3,573,694).

Directors' Report (continued)

Principal Activities

The principal business activity of Stokes is design, distribution and installation of lighting and audio visual products.

Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the Company and its controlled entities that occurred during the financial year under review not otherwise disclosed in this report or the accompanying financial report.

Environmental Regulation and Performance

The company's operations are not subject to any significant environmental regulations under the Commonwealth or State legislation. However, the Directors believe that the Company has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the economic entity.

Debt and Capital Management

The company's existing relationship with Cash Resources for its ongoing financing requirements continues and is operating within its limits.

Dividends

No dividends have been paid, declared or recommended but not paid by the company in respect of the year ended 30 June 2016 or the year ended 30 June 2015.

Options

No options were granted by the company over any unissued shares or unissued interests during the years ended 30 June 2016 and 30 June 2015 and, as at the date of this report, there were no unissued shares or interest in the company under option.

Outlook

The AV Integration and LED lighting divisions continue their expansion with numerous large projects having been won and completed and many more in the pipeline. The company continues to invest in R&D and continues to develop cutting edge products in order to differentiate from its competitors.

The company has also announced it is embarking on an acquisition strategy to complement its already proven organic growth story with a medium term target of achieving \$50M in revenues helping us achieve critical mass.

The year ahead looks extremely promising there are a number of projects in the pipeline and the company is well placed to take advantage of opportunities as they arise.

Events Subsequent to Balance Date

Directors are not aware of any other matters or circumstances not otherwise dealt with in this report that has significantly or may significantly affect the operations of the consolidated entity.

Proceedings on Behalf of the company

No proceedings have been brought on behalf of the company or its controlled entities.

Directors' meetings

The number of Directors' meetings held during the financial year and the number of meetings attended by each director (while they were a director) are as follows:

| Director | Directors Meetings | |
|-------------|--------------------|----------|
| | Held | Attended |
| Peter Jinks | 10 | 10 |
| Greg Jinks | 10 | 10 |
| Con Scrinis | 10 | 10 |

Directors' Report (continued)

Indemnification and insurance of officers and auditors

The constitution of the company provides that, to the extent permitted by the *Corporations Act 2001* "every officer and employee of the company and its wholly-owned subsidiaries shall be indemnified out of the funds of the company (to the extent that the officer or employee is not otherwise indemnified) against all liabilities incurred as such an officer or employee, including all liabilities incurred as a result of appointment or nomination by the company or the subsidiary as a trustee or as an officer or employee of another corporation."

The directors of the company who held office during the past year, Con Scrinis, Peter Jinks and Greg Jinks have the benefit of the above indemnity. The indemnity also applies to executive officers of the company who are concerned, or take part, in the management of the company.

The company has not paid any insurance premiums in respect of any past or present directors or auditors, other than as required by law.

Auditor independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* in relation to the audit for the financial year is provided with this report on page 46.

Non-Audit Services

The Company's auditors Pitcher Partners provided non-audit services in relation to tax compliance and other assurance services to the Company for which \$24,000 (2015: \$13,800) was paid or payable to Pitcher Partners by the Company, non-audit and other assurance services are approved by resolution of the board of directors. The Directors are satisfied that the provision of the non-audit services was compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

Staff

The Board appreciates the support it continues to have from the company's staff, and acknowledges with thanks the efforts they are all making to assist the company through this transition period.

Rounding of amounts

In accordance with ASIC Corporations (Rounding in the Financial/Directors' Reports) Instrument 2016/191, the amounts in the directors' report and in the financial report have been rounded to the nearest dollar.

Remuneration Report (Audited)

This report outlines the remuneration arrangements in place for key management personnel of Stokes Limited.

Remuneration philosophy

Remuneration levels are set by the company in accordance with industry standards to attract and retain suitable qualified and experienced Directors and senior executives. The company has not engaged a remuneration consultant.

The company distinguishes the structure of non-executive Director's remuneration from that of executive Directors and senior executives. The company's Constitution provides that the remuneration of non-executive Directors will be not more than the aggregated sum fixed by a general meeting of shareholders.

There is no formal contract of employment for the executives of the Company. Whilst there is no formal contract of employment, standard employment conditions apply.

The remuneration for executive Directors is currently not linked to the Company's financial performance or share price. None of remuneration of the Directors listed below was considered at risk.

There are no retirement schemes in place for directors other than statutory contributions to superannuation.

Details of key management personnel

Directors

| | |
|-------------|--------------------------------|
| Peter Jinks | Managing Director and Chairman |
| Greg Jinks | Executive Director |
| Con Scrinis | Executive Director |

Directors' and other officers' emoluments

| 2016 | Short-term | Long-term | Post-employment | Total |
|-------------|-----------------|--------------------|-----------------|---------|
| | Salary and fees | Long service leave | Superannuation | |
| | \$ | \$ | \$ | \$ |
| Peter Jinks | 141,461 | - | 13,015 | 154,476 |
| Greg Jinks | 233,600 | - | - | 233,600 |
| Con Scrinis | 233,600 | - | - | 233,600 |
| Total | 608,661 | - | 13,015 | 621,676 |

Directors' emoluments

| 2015 | Short-term | Long-term | Post-employment | Total |
|-------------|-----------------|--------------------|-----------------|---------|
| | Salary and fees | Long service leave | Superannuation | |
| | \$ | \$ | \$ | \$ |
| Peter Jinks | 47,705 | - | 2,019 | 49,724 |
| Greg Jinks | 245,226 | - | - | 245,226 |
| Con Scrinis | 277,750 | - | - | 277,750 |
| Total | 570,681 | - | 2,019 | 572,700 |

Directors' equity holdings

At the date of this report, directors had relevant interests in ordinary shares in Stokes Limited as follows:

| Director | Shares held Directly | Shares held indirectly | Total |
|-------------|----------------------|------------------------|-----------|
| Peter Jinks | 10,000 | 3,776,000 | 3,786,000 |
| Greg Jinks | - | 3,786,000 | 3,786,000 |
| Con Scrinis | 750 | 3,786,000 | 3,786,750 |

Remuneration Report (Audited) (Continued)

As at 30 June 2015, the key management personnel had relevant interests in the following number of ordinary shares in Stokes Limited:

| Name | Directly Owned | Indirectly Owned | Total |
|-------------|----------------|------------------|-----------|
| Peter Jinks | 10,000 | 3,776,000 | 3,786,000 |
| Greg Jinks | - | 3,786,000 | 3,786,000 |
| Con Scrinis | 750 | 3,786,000 | 3,786,750 |

During the financial year no ordinary shares were redeemed, exercised or bought back from key management personnel.

At the date of this report, directors had relevant interests in Convertible Notes in Stokes Limited as follows:

| Director | Convertible Notes held Directly | Convertible Notes held indirectly | Total |
|-------------|---------------------------------|-----------------------------------|---------|
| Peter Jinks | 2,500 | 944,000 | 946,500 |
| Greg Jinks | 71,500 | 875,000 | 946,500 |
| Con Scrinis | - | 946,500 | 946,500 |

As at 30 June 2015, the key management personnel had relevant interests in the following number of Convertible Notes in Stokes Limited:

| Director | Convertible Notes held Directly | Convertible Notes held indirectly | Total |
|-------------|---------------------------------|-----------------------------------|---------|
| Peter Jinks | 2,500 | 944,000 | 946,500 |
| Greg Jinks | 71,500 | 875,000 | 946,500 |
| Con Scrinis | - | 946,500 | 946,500 |

None of the directors have an interest in the options of Stokes Limited.

Transactions with Key Management Personnel

Lawson lodge, a conference centre owed by Greg Jinks invoiced the company for \$11,467. The transaction was on an arms length basis on normal commercial terms and conditions.

Moller Volantor, an entity related to Greg Jinks, loaned \$500,000, short term finance facility on normal commercial terms and conditions and this short term loan was paid out in full at balance date. The paid interest cost of \$24,669 to Moller Volantor during the financial year ended on 30 June 2016.

Key management personnel did not receive any share based compensation during the year.

Corporate governance statement

The Board of Directors of Stokes Limited is responsible for corporate governance. The Board has chosen to prepare the Corporate Governance Statement (CGS) in accordance with the third edition of the ASX Corporate Governance Council's Principles and Recommendations under which the CGS may be made available on the Company's website.

Accordingly, a copy of the Company's CGS is available on the Stokes website at www.stokes.com.au/corporate-governance.

Voting and comments made at the company's 2015 Annual General Meeting (AGM)

The company received 99.4% of 'for' votes in relation to its remuneration report for the year ended 30 June 2015. The resolution to adopt the Remuneration Report of the Company and its controlled entities for the year ended 30 June 2015 was carried as an ordinary resolution. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

Signed on 30 August 2016 in accordance with a resolution of the Directors made pursuant to section 298(2) of the *Corporations Act 2001*.



Con Scrinis
Director
30 August 2016

Consolidated Statement of Comprehensive Income for the year ended 30 June 2016

| | Notes | 2016 \$ | 2015 \$ |
|--|-------|---------------------|--------------------|
| Revenue and other income | | | |
| Sales revenue | 5(a) | 15,415,780 | 3,516,671 |
| Other income | 5(b) | 1,110,427 | 11,647 |
| Total Revenue and other income | | 16,526,207 | 3,528,318 |
| Expenses | | | |
| Cost of sales | | (12,673,848) | (2,737,164) |
| Selling expenses | | (2,209,054) | (1,535,472) |
| Occupancy expenses | | (352,647) | (118,303) |
| Administration expenses | | (2,224,032) | (909,547) |
| Depreciation and amortisation | 5(c) | (135,660) | (66,285) |
| Finance costs | 5(c) | (423,630) | (406,790) |
| Total Expenses | | (18,018,871) | (5,773,561) |
| (Loss) before income tax | | (1,492,664) | (2,245,243) |
| Income tax expense | | - | - |
| (Loss) after income tax from continuing operations | | (1,492,664) | (2,245,243) |
| Profit / (loss) after income tax from discontinued operations | 4 | 1,547,181 | (1,328,451) |
| Profit / (loss) for the year | | 54,517 | (3,573,694) |
| Other Comprehensive Income | | - | - |
| Other Comprehensive Income for the year net of tax | | - | - |
| Total Comprehensive Income for the year | | 54,517 | (3,573,694) |
| Profit / (loss) attributable to: members of the Parent Entity | 17 | 54,517 | (3,573,694) |
| Total comprehensive income attributable to members of the parent arises from: | | | |
| Continuing operations | | (1,492,664) | (2,245,243) |
| Discontinued operations | | 1,547,181 | (1,328,451) |
| | | 54,517 | (3,573,694) |
| (Loss) per share from continuing operations (cents per share) | | | |
| Basic | 18 | (5.12) | (7.70) |
| Diluted | 18 | (4.10) | (6.16) |
| Earnings / (loss) per share from discontinued operations (cents per share) | | | |
| Basic | 18 | 5.31 | (4.56) |
| Diluted | 18 | 4.25 | (3.65) |

The above statement should be read in conjunction with the accompanying notes

**Consolidated Statement of Financial Position
as at 30 June 2016**

| | Notes | 2016 \$ | 2015 \$ |
|--------------------------------------|--------|--------------------|--------------------|
| Current Assets | | | |
| Cash and cash equivalents | 22 (a) | 882,157 | 298,523 |
| Trade and other receivables | 8 | 4,596,661 | 2,535,501 |
| Inventories | 9 | 1,234,130 | 393,671 |
| Other assets | 10 | 156,602 | 341,935 |
| | | <u>6,869,550</u> | <u>3,569,630</u> |
| Assets held for sale | 4 | - | 2,065,204 |
| Total Current Assets | | 6,869,550 | 5,634,834 |
| Non-Current Assets | | | |
| Plant and equipment | 12 | 507,629 | 327,369 |
| Intangible Assets | 11 | 121,778 | - |
| Total Non-Current Assets | | 629,407 | 327,369 |
| Total Assets | | 7,498,957 | 5,962,203 |
| Current Liabilities | | | |
| Trade and other payables | 13 | 4,774,764 | 2,910,315 |
| Borrowings | 14 | 3,306,533 | 882,942 |
| Provisions – Employee benefits | 15 | 268,404 | 319,611 |
| | | <u>8,349,701</u> | <u>4,112,868</u> |
| Liabilities held for sale | 4 | - | 246,220 |
| Total Current Liabilities | | 8,349,701 | 4,359,088 |
| Non-Current Liabilities | | | |
| Borrowings | 14 | 277,181 | 2,721,762 |
| Provisions – Employee benefits | 15 | 15,704 | 79,499 |
| Total Non-Current Liabilities | | 292,885 | 2,801,261 |
| Total Liabilities | | 8,642,586 | 7,160,349 |
| Net Asset Deficiency | | (1,143,629) | (1,198,146) |
| Equity | | | |
| Contributed equity | 16 | 10,426,352 | 10,426,352 |
| Accumulated losses | 17 | (11,569,981) | (11,624,498) |
| Total Equity | | (1,143,629) | (1,198,146) |

The above statement should be read in conjunction with the accompanying notes

Consolidated Statement of Cash Flows for the year ended 30 June 2016

| | Notes | 2016 \$ | 2015 \$ |
|---|--------|--------------------|--------------------|
| Cash flows from operating activities | | | |
| Receipts from customers | | 15,763,007 | 15,819,035 |
| Receipt of Research and development grant | | 1,058,374 | - |
| Payments to suppliers and employees | | (18,180,244) | (17,449,416) |
| Interest received | | 14,016 | 2,138 |
| Finance costs | | (353,658) | (340,285) |
| Net cash used in operating activities | 22 (d) | (1,698,505) | (1,968,528) |
| Cash flows from investing activities | | | |
| Payment for property, plant and equipment | | (31,680) | (334,616) |
| Payment for business | 23 | (349,302) | - |
| Deposit received – sale of business | | - | 515,000 |
| Proceeds from – sale of business | 4 | 4,086,030 | - |
| Costs to complete sale of business | 4 | (1,105,810) | - |
| Deposit paid for future business acquisition | | (25,000) | (30,000) |
| Net cash provided by investing activities | | 2,574,238 | 150,384 |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | | 1,125,045 | - |
| Repayments of borrowings | | (1,417,144) | (408,874) |
| Net cash used in financing activities | | (292,099) | (408,874) |
| Net increase / (decrease) in cash held | | 583,634 | (2,227,018) |
| Cash and cash equivalents at the beginning of the financial year | | 298,523 | 2,525,541 |
| Cash and cash equivalents at the end of the financial year | 22(a) | 882,157 | 298,523 |

The above statement should be read in conjunction with the accompanying notes

**Consolidated Statement of Changes in Equity
for the year ended 30 June 2016**

| | Contributed Equity \$ | Accumulated losses \$ | Total \$ |
|---------------------------|--------------------------|--------------------------|--------------------|
| As at 1 July 2014 | 10,426,352 | (8,050,804) | 2,375,548 |
| Loss for the year | - | (3,573,694) | (3,573,694) |
| As at 30 June 2015 | 10,426,352 | (11,624,498) | (1,198,146) |

| | Contributed Equity \$ | Accumulated losses \$ | Total \$ |
|--------------------------|--------------------------|--------------------------|--------------------|
| As at 1 July 2015 | 10,426,352 | (11,624,498) | (1,198,146) |
| Profit for the year | - | 54,517 | 54,517 |
| At 30 June 2016 | 10,426,352 | (11,569,981) | (1,143,629) |

The above statement should be read in conjunction with the accompanying notes

Notes to the financial statements for the year ended 30 June 2016

Note 1: Summary of significant accounting policies

The following is a summary of significant accounting policies adopted by the consolidated entity in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Basis of preparation

This financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report covers Stokes Limited and controlled entities as a consolidated entity. Stokes Limited is a company limited by shares, incorporated and domiciled in Australia. The address of Stokes Limited's registered office and principal place of business is 53 Stanley Street, West Melbourne. Stokes Limited is a for-profit entity for the purpose of preparing the financial statements.

The financial report of Stokes Limited for the year ended 30 June 2016 was authorised for issue in accordance with a resolution of the directors on 30 August 2016.

Compliance with IFRS

The consolidated financial statements of Stokes Limited also comply with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

The financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets as described in the accounting policies.

Significant accounting estimates

The preparation of the financial report requires the use of certain estimates and judgements in applying the entity's accounting policies. Those estimates and judgements significant to the financial report are disclosed in Note 2.

(b) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising the financial statements of the parent entity and of all entities which the parent entity controls. The group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies, which may exist.

All inter-company balances and transactions, including any unrealised profits or losses have been eliminated on consolidation. Subsidiaries are consolidated from the date on which control is established and are de-recognised from the date that control ceases.

Equity interests in a subsidiary not attributable, directly or indirectly, to the group are presented as non-controlling interests. Non-controlling interests in the results of subsidiaries are shown separately in the consolidated Statement of Profit or Loss and Other Comprehensive Income and consolidated Statement of Financial Position respectively.

(c) Business combinations

A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses and results in the consolidation of the assets and liabilities acquired. Business combinations are accounted for by applying the acquisition method.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree. Deferred consideration payable is measured at its acquisition-date fair value. Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. At each reporting date subsequent to the acquisition, contingent consideration payable is measured at its fair value with any changes in the fair value recognised in profit or loss unless the contingent consideration is classified as equity, in which case the contingent consideration is carried at its acquisition-date fair value.

Goodwill is recognised initially at the excess of: (a) the aggregate of the consideration transferred, the fair value of the non-controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest (in case of step acquisition); over (b) the net fair value of the identifiable assets acquired and liabilities assumed.

If the net fair value of the acquirer's interest in the identifiable assets acquired and liabilities assumed is greater than the aggregate of the consideration transferred, the fair value of the non-controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest, the difference is immediately recognised as a gain in profit or loss.

Acquisition related costs are expensed as incurred.

Notes to the financial statements for the year ended 30 June 2016

Note 1: Summary of significant accounting policies (cont'd)

(d) Intangibles

Goodwill

Goodwill represents the future economic benefits arising from other assets acquired in a business combination that are not individually identifiable or separately recognised. Refer to Note 1(c) for a description of how goodwill arising from a business combination is initially measured.

Goodwill is not amortised but is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is carried at cost less accumulated impairment losses.

(e) Going concern

The financial report has been prepared on a going concern basis which contemplated the continuity of normal business activities and realisation of assets and settlement of liabilities in the ordinary course of business.

The group incurred a loss from continuing operations of \$1,492,664 during the year ended 30 June 2016 (2015: \$2,245,243), and as at that date, the group's net asset deficiency was \$1,143,629 (2015: \$1,198,146).

The working capital position as at 30 June 2016 results in an excess of current liabilities over current assets of \$1,480,151 (2015: excess of current assets over current liabilities of \$1,275,746). Included in current liabilities are convertible notes with a face value of \$2,550,737 due to mature on 30 June 2017.

The group produced negative cash flows from operating activities for the year ended 30 June 2016 of \$1,698,505 (2015: \$1,968,528).

The ability of the Group to continue as a going concern is reliant on generating profits, improving cash flows from operating activities, managing debt levels, and the management of other cash flows within the Group's funding facilities.

Notwithstanding the above, the directors believe the going concern basis is appropriate due to the following factors

- The Group has prepared forward budget and cash flow projections which are based on increasing revenues from the expanding technologies division of lighting and audio visual products and solutions. The directors have reviewed and approved the managements' forward budgets and forecasts which shows positive cash flow projections over the next 12 months.
- The technology division is currently in a growth phase which has meant investment in people, facilities and equipment to allow for this growth. The directors are confident that this investment which has already delivered significant growth will result in not only further growth but profitability and positive operating cash flows in the future.
- The directors also believe the company is well placed to raise further capital (if required) to fund working capital and/or acquisitions.

On the basis of the above the directors believe that the Group will continue as a going concern over the next 12 months and consequently will realise assets and settle liabilities and commitments in the ordinary course of business and at the amounts stated in the financial report.

If the going concern basis of accounting is found to no longer be appropriate, the recoverable amounts of the assets shown in the statement of financial position are likely to be significantly less than the amounts disclosed and the extent of the liabilities may differ significantly from those reflected in the Statement of Financial Position.

(f) Financial Instruments

Classification

The consolidated entity classifies its financial instruments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Fair value through profit or loss

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short-term profit taking, are derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation by key management personnel. Investments in listed securities are carried at fair value through profit or loss. They are measured at their fair value at each reporting date and any increment or decrement in fair value from the prior period is recognised in profit or loss of the current period. Fair value of listed investments are based on closing bid prices at the reporting date.

Notes to the financial statements for the year ended 30 June 2016

Note 1: Summary of significant accounting policies (cont'd)

Financial Instruments (cont'd)

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and the group intends to hold the investments to maturity. They are subsequently measured at amortised cost using

the effective interest rate method.

Loans and receivables

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

Available-for-sale

Available-for-sale financial assets include any financial assets not included in the above categories or are designated as such on initial recognition. Available-for-sale financial assets are subsequently measured at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity. The cumulative gain or loss is held in equity until the financial asset is de-recognised, at which time the cumulative gain or loss held in equity is recognised in profit or loss.

Non-listed investments for which fair value cannot be reliably measured, are carried at cost and tested for impairment.

Financial liabilities

Financial liabilities include trade payables, other creditors, loans from third parties and loans or other amounts due to director-related entities.

Non-derivative financial liabilities are subsequently measured at amortised cost, comprising original debt less principal payments and amortisation.

Financial liabilities are classified as current liabilities unless the consolidated entity has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Compound financial instruments

Compound financial instruments issued by the consolidated entity comprise convertible notes that are able to be converted to share capital at the option of the noteholder, and the number of shares to be issued will not vary with changes in their fair value.

The liability component of a compound financial instrument is initially recognised at the fair value of a comparable liability that does not have an equity conversion option. The equity component is initially recognised at the difference between fair value of the compound financial instrument as a whole and the fair value of the liability component. All directly attributable transaction costs are allocated to the liability and equity component on a proportional basis.

After initial recognition, the liability component of the compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured after initial recognition.

Interest, losses and gains relating to the financial liability component are recognised in profit or loss. Distributions to the equity holders are recognised against equity, net of any tax benefit.

Impairment of financial assets

Financial assets are tested for impairment at each financial year end to establish whether there is any objective evidence for impairment as a result of one or more events ('loss events') having occurred and which have an impact on the estimated future cash flows of the financial assets.

For loans and receivables and held-to-maturity investments carried at amortised cost, impairment losses are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of the loss reduces the carrying amount of the asset and is recognised in profit or loss. The impairment loss is reversed through profit or loss if the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised.

For available-for-sale financial assets carried at cost because a fair value cannot be reliably determined, impairment loss is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed.

Notes to the financial statements for the year ended 30 June 2016

Note 1: Summary of significant accounting policies (cont'd)

Financial Instruments (cont'd)

For available-for-sale financial assets carried at fair value, the impairment loss is measured as the difference between the acquisition cost and current fair value, less any impairment loss previously recognised in profit or loss. If the asset is impaired, the cumulative loss is reclassified from equity to the profit or loss. For equity investments, the impairment loss is not reversed through profit or loss. For debt investments, the impairment loss is reversed through profit or loss if the fair value increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment losses was recognised in profit or loss.

(g) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements. Depreciation is calculated on a straight-line basis or diminishing value over the estimated useful life of the asset as follows:

Plant and equipment – over 3 to 10 years
Leased assets – over 3 to 10 years

The assets residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year end.

(h) Borrowing costs

Borrowing costs can include interest expense calculated using the effective interest method, finance charges in respect of finance leases, and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs are expensed as incurred, except for borrowing costs incurred as part of the cost of the construction of a qualifying asset which are capitalised until the asset is ready for its intended use or sale.

(i) Inventories

Inventories are measured at the lower of cost and net realisable value.

Costs are accounted for as follows:

Raw materials – average purchase cost. The cost of purchase comprises the purchase price, import duties and other taxes, transport, handling and other costs directly attributable to the acquisition of raw materials.

Finished goods and work-in-progress – average cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(k) Employee benefits

(i) Short-term employee benefit obligations

Liabilities arising in respect of wages and salaries, annual leave, accumulated sick leave and any other employee benefits (other than termination benefits) expected to be settled wholly within twelve months of the reporting date are measured at the amounts based on remuneration rates which are expected to be paid when the liability is settled. The expected cost of short-term employee benefits in the form of compensated absences such as annual leave and accumulated sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Other long-term employee benefit obligations

The provision for other long-term employee benefits, including obligations for long service leave and annual leave, which are not expected to be settled wholly before twelve months after the end of the reporting period, are measured at the present value of the estimated future cash outflow to be made in respect of the services provided by employees up to the reporting date. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee turnover, and are discounted at rates determined by reference to market yields at the end of the reporting period on high quality corporate bonds that have maturity dates that approximate the terms of the obligations. Any remeasurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the change occurs.

Notes to the financial statements for the year ended 30 June 2016

Note 1: Summary of significant accounting policies (cont'd)

Employee benefits (cont'd)

Other long-term employee benefit obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur. All other long-term employee benefit obligations are presented as non-current liabilities in the statement of financial position.

(iii) Termination benefits

The group recognises an obligation and expense for termination benefits at the earlier of: (a) the date when the group can no longer withdraw the offer for termination benefits; and (b) when the group recognises costs for restructuring and the costs include termination benefits. In either case, the obligation and expense for termination benefits is measured on the basis of the best estimate of the number of employees expected to be affected. Termination benefits that are expected to be settled wholly before twelve months after the annual reporting period in which the benefits are recognised are measured at the (undiscounted) amounts expected to be paid. All other termination benefits are accounted for on the same basis as other long-term employee benefits

(iv) Retirement benefit obligations

Defined contribution superannuation plan

The consolidated entity makes superannuation contributions (currently 9.50% of the employee's average ordinary salary) to the employee's defined contribution superannuation plan of choice in respect of employee services rendered during the year. These superannuation contributions are recognised as an expense in the same period when the related employee services are received. The group's obligation with respect to employee's defined contributions entitlements is limited to its obligation for any unpaid superannuation guarantee contributions at the end of the reporting period. All obligations for unpaid superannuation guarantee contributions are measured at the (undiscounted) amounts expected to be paid when the obligation is settled and are presented as current liabilities in the statement of financial position.

(l) Provisions

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

(m) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Finance leases

Leases of fixed assets, where substantially all of the risks and benefits incidental to ownership of the asset, but not the legal ownership, are transferred to the consolidated entity are classified as finance leases. Finance leases are capitalised, recording an asset and liability equal to the present value of the minimum lease payments, including any guaranteed residual values. The interest expense is calculated using the interest rate implicit in the lease and is included in finance costs in the statement of comprehensive income. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely the consolidated entity will obtain ownership of the asset, or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Operating leases

Lease payments for operating leases are recognised as an expense on a straight-line basis over the term of the lease.

Lease incentives received under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(n) Revenue

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered to have passed to the buyer at the time of delivery of the goods to the customer.

Revenue from rendering of services to customers is recognised upon delivery of the service to the customer.

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

All revenue is stated net of the amount of goods and services tax (GST).

Notes to the financial statements for the year ended 30 June 2016

Note 1: Summary of significant accounting policies (cont'd)

(o) Income tax

Current income tax expense or revenue is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

Deferred tax balances

Deferred tax assets and liabilities are recognised for temporary differences at the applicable tax rates when the assets are expected to be recovered or liabilities are settled. No deferred tax asset or liability is recognised in relation to temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax consolidation

Stokes Limited (parent entity) and its wholly owned subsidiaries have implemented the tax consolidation legislation and have formed a tax-consolidated group from 30 November 2009. The parent entity and subsidiaries in the tax-consolidated group have entered into a tax funding agreement such that each entity in the tax-consolidated group recognises the assets, liabilities, expenses and revenues in relation to its own transactions, events and balances only. This means that:

- the parent entity recognises all current and deferred tax amounts relating to its own transactions, events and balances only;

- the subsidiaries recognise current or deferred tax amounts arising in respect of their own transactions, events and balances;
- current tax liabilities and deferred tax assets arising in respect of tax losses, are transferred from the subsidiary to the head entity as inter-company payables or receivables.

The tax-consolidated group also has a tax sharing agreement in place to limit the liability of subsidiaries in the tax-consolidated group arising under the joint and several liability requirements of the tax consolidation system, in the event of default by the parent entity to meet its payment obligations.

(p) 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 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.

(q) Impairment of non-financial assets

Goodwill, intangible assets not yet ready for use and intangible assets with indefinite useful lives are not subject to amortisation and are therefore tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

For impairment assessment purposes, assets are generally grouped at the lowest levels for which there are largely independent cash flows ('cash generating units'). Accordingly, most assets are tested for impairment at the cash-generating unit level. Because it does not generate cash flows independently of other assets or groups of assets, goodwill is allocated to the cash generating unit or units that are expected to benefit from the synergies arising from the business combination that gave rise to the goodwill.

An impairment loss is recognised where the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is defined as the higher of its fair value less costs to sell and value in use.

(r) Comparatives

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

Notes to the financial statements for the year ended 30 June 2016

Note1: Summary of significant accounting policies (cont'd)

(s) Accounting standards issued but not yet effective at 30 June 2016

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group has decided not to early adopt any of these new and amended pronouncements. The Group's assessment of the new and amended pronouncements that are relevant to the Group but applicable in future reporting periods is set out below.

AASB 15 Revenue from contracts with customers

AASB 15: Revenue from Contracts with Customers, AASB 2014-5: Amendments to Australian Accounting Standards arising from AASB 15, AASB 2015-8: Amendments to Australian Accounting Standards – Effective Date of AASB 15 and AASB 2016-3: Amendments to Australian Accounting Standards – Clarifications to AASB 15 (applicable for annual reporting periods commencing on or after 1 January 2018).

AASB 15 will provide (except in relation to some specific exceptions, such as lease contracts and insurance contracts) a single source of accounting requirements for all contracts with customers, thereby replacing all current accounting pronouncements on revenue. These Standards provide a revised principle for recognising and measuring revenue. Under AASB 15, revenue is recognised in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the provider of the goods or services expects to be entitled. To give effect to this principle, AASB 15 requires the adoption of the following 5-step model:

- identify the contract(s) with a customer;
- identify the performance obligations under the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations under the contract(s); and
- recognise revenue when (or as) the entity satisfies the performance obligations.

AASB 15 also provides additional guidance to assist entities in applying the revised principle to licences of intellectual property, warranties, rights of return, principal/agent considerations and options for additional goods and services. Although the directors anticipate that the adoption of AASB 15 may have an impact on the Group's reported revenue, the impact has not yet been quantified.

The effective date is annual reporting periods beginning on or after 1 January 2018.

AASB 9 Financial Instruments

AASB 9: Financial Instruments (December 2014), AASB 2014-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2014), AASB 2014-8: Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) – Application of AASB 9 (December 2009) and AASB 9 (December 2010) (applicable for annual reporting periods commencing on or after 1 January 2018).

These Standards will replace AASB 139: Financial Instruments: Recognition and Measurement. The key changes that may affect the Group on initial application of AASB 9 and associated amending Standards include:

- simplifying the general classifications of financial assets into those carried at amortised cost and those carried at fair value;
 - permitting entities to irrevocably elect on initial recognition to present gains and losses on an equity instrument that is not held for trading in other comprehensive income (OCI);
 - simplifying the requirements for embedded derivatives, including removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
 - 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 OCI, except when it would create an 'accounting mismatch';
 - introducing a new model for hedge accounting that permits greater flexibility in the ability to hedge risk, particularly with respect to non-financial items; and
 - requiring impairment of financial assets carried at amortised cost to be based on an expected loss approach.
- Although the directors anticipate that the adoption of AASB 9 may have an impact on the Group's financial instruments, it is impracticable at this stage to provide a reasonable estimate of such impact.

Notes to the financial statements for the year ended 30 June 2016

Note 1: Summary of significant accounting policies (cont'd)

AASB 16 Leases

AASB 16: Leases (applicable for annual reporting periods commencing on or after 1 January 2019). AASB 16 will replace AASB 117: Leases and introduces a single lessee accounting model that will require a lessee to recognise right-of-use assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Right-of-use assets are initially measured at their cost and lease liabilities are initially measured on a present value basis. Subsequent to initial recognition:

- right-of-use assets are accounted for on a similar basis to non-financial assets, whereby the right-of-use asset is accounted for in accordance with a cost model unless the underlying asset is accounted for on a revaluation basis, in which case if the underlying asset is:
- investment property, the lessee applies the fair value model in AASB 140: Investment Property to the right-of-use asset; or
- property, plant or equipment, the lessee can elect to apply the revaluation model in AASB 116: Property, Plant and Equipment to all of the right-of-use assets that relate to that class of property, plant and equipment; and
- lease liabilities are accounted for on a similar basis as other financial liabilities, whereby interest expense is recognised in respect of the liability and the carrying amount of the liability is reduced to reflect lease payments made.

AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, under AASB 16 a lessor would continue to classify its leases as operating leases or finance leases subject to whether the lease transfers to the lessee substantially all of the risks and rewards incidental to ownership of the underlying asset, and would account for each type of lease in a manner consistent with the current approach under AASB 117.

Although the directors anticipate that the adoption of AASB 16 may have an impact on the Group's accounting for its operating leases, they are yet to determine the amount of the impact.

The effective date is annual reporting periods beginning on or after 1 January 2018.

Note 2: Critical Accounting Estimates and judgements

In applying the Group's accounting policies management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment), lease terms (for leased equipment) and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary. Depreciation charges are included in note 5.

Impairment of Goodwill

The recoverable amount of Goodwill is based on value in use calculations. These calculations are based on projected cash flows approved by management covering a period of 5 years. Management's determination of cash flow projections and gross margins are based on past performance and its expectations for the future. The present value of future cash flows has been calculated using an average growth rate of 3% for cash flows in year two to five which is based on the historical average, a terminal value growth rate of 3% and a discount rate of 12% to determine value-in-use.

Sensitivity analysis concluded that there would be no impact on the carrying value of the goodwill of DuelTek.

NOTE 3: RELATED PARTY DISCLOSURES

The following is a summary of transactions with directors and other related parties entered into throughout the financial year: Lawson lodge, a conference centre owed by Greg Jinks invoiced the company for \$11,467. The transaction was on an arms length basis on normal commercial terms and conditions.

Moller Volantor, an entity related to Greg Jinks, loaned \$500,000, short term finance facility on normal commercial terms and conditions and this short term loan was paid out in full at balance date. The group paid interest of \$24,669 to Moller Volantor during the financial year ended on 30 June 2016.

Greg Jinks invoiced the company for directors fees of \$233,600 (2015: \$245,226) via his entity Lawson Group Inc.

Con Scrinis invoiced the company for directors fees of \$233,600 (2015: \$277,750) via his entity The Traffic Group Pty Ltd.

Notes to the financial statements for the year ended 30 June 2016

NOTE 4: DISCONTINUED OPERATION

On 4 June 2015, the Company entered into a contract to sell its business of distribution of Appliance Parts and Services, and announced the closure of a division manufacturing industrial heating elements effective 31 July 2015. This enabled management to concentrate on the rapidly expanding technologies division of lighting and audio visuals products and solutions.

The results of the discontinued operations for the month of July 2015 (year ended 30 June 2015) until disposal are presented below:

| | 2016 \$ | 2015 \$ |
|--|------------------|--------------------|
| (i) Financial performance information | | |
| Sales revenue | 1,034,677 | 11,291,078 |
| Expenses | (1,163,943) | (12,619,556) |
| Other income | 211 | 27 |
| Loss before income tax | (129,055) | (1,328,451) |
| Income tax expense | - | - |
| Loss after income tax from discontinued operations | (129,055) | (1,328,451) |
| Gain on disposal of the discontinued operations before income tax | 1,676,236 | - |
| Income tax expense | - | - |
| Gain on disposal of the discontinued operations before income tax | 1,676,236 | - |
| Profit/(loss) from discontinued operation | 1,547,181 | (1,328,451) |
| (ii) Cash flow information | | |
| Net cash used in operating activities | (129,055) | (944,525) |
| Net cash from / (used in) investing activities | 2,980,220 | (95,066) |
| Net cash flow | 2,851,165 | (1,039,591) |
| (iii) Carrying amount of assets and liabilities | | |
| Assets | | |
| Inventory | - | 1,782,250 |
| Property plant and equipment | - | 182,953 |
| Goodwill | - | 100,001 |
| Assets classified as held for sale | - | 2,065,204 |
| Liabilities | | |
| Provisions – Employee benefits | - | 246,220 |
| Liabilities classified as held for sale | - | 246,220 |
| Net assets attributable to discontinued operation | - | 1,818,984 |
| Details of discontinued operation disposed | | |
| Consideration received or receivable | 4,601,030 | |
| Less: Net assets disposed of | (1,818,984) | |
| Less: transaction costs to complete sale of business | (1,105,810) | |
| Gain on disposal of discontinued operation before tax | 1,676,236 | |
| Income tax expense | - | |
| Gain on disposal of discontinued operation after tax | 1,676,236 | |

Notes to the financial statements for the year ended 30 June 2016

NOTE 5: INCOME AND EXPENSES

| | Notes | 2016 \$ | 2015 \$ |
|--|-------|-------------------|------------------|
| (a) Sales revenue | | | |
| Sales revenue | | 15,415,780 | 3,516,671 |
| (b) Other income | | | |
| Interest revenue | | 14,016 | 2,111 |
| Research and development grant | | 1,058,374 | - |
| Sundry income | | 38,037 | 9,536 |
| Total other income | | 1,110,427 | 11,647 |
| Total revenue and other income | | 16,526,207 | 3,528,318 |
| (c) Expenses | | | |
| Finance Costs: | | | |
| Interest - other loans | | 97,884 | 85,211 |
| Interest – Convertible notes | | 255,774 | 255,074 |
| Amortisation of deferred borrowing cost | | 69,972 | 66,505 |
| | | 423,630 | 406,790 |
| Depreciation and amortisation of non-current assets: | | | |
| Plant and equipment - continuing operation | | 135,660 | 66,285 |
| Plant and equipment - discontinued operation | | - | 284,441 |
| Operating lease rental expenses - continuing operation | | 352,647 | 118,303 |
| Operating lease rental expenses - discontinued operation | | 29,537 | 661,584 |
| Employee Benefits: | | | |
| Wages - continuing | | 3,220,510 | 1,545,572 |
| Superannuation – continuing | | 292,319 | 146,829 |
| Wages – discontinued operations | | 407,630 | 2,718,456 |
| Superannuation – discontinued operations | | 33,635 | 258,253 |
| Impairment of Goodwill - discontinued operation | | - | 99,485 |

Notes to the financial statements for the year ended 30 June 2016

Note 6: DIRECTOR'S AND EXECUTIVE'S COMPENSATION

(a) Details of Directors

| | |
|-------------|--------------------------------|
| Peter Jinks | Managing Director and Chairman |
| Greg Jinks | Executive Director |
| Con Scrinis | Executive Director |

(b) Remuneration by Category: Directors and Executives

| | Notes | 2016 \$ | 2015 \$ |
|-----------------------------------|-------|----------------|----------------|
| Short-term employee benefits | | 608,661 | 570,681 |
| Long-term employee benefits | | - | - |
| Post-employment Employee benefits | | 13,015 | 2,019 |
| Total | | 621,676 | 572,700 |

NOTE 7: INCOME TAX

(a) Prima facie tax benefit/expense on profit/(loss) before income tax is reconciled to the income tax as follows:

| | | |
|---|---------------|--------------------|
| (Loss) before income tax - continuing operations | (1,492,664) | (2,245,243) |
| Profit/(loss)before income tax - discontinued operations | 1,547,181 | (1,328,451) |
| | 54,517 | (3,573,694) |
| Prima facie income tax payable / (benefit) | | |
| Tax at 30% (2015 : 30%) | 16,355 | (1,072,108) |
| Add tax effect of: | | |
| Temporary differences and tax losses not brought to account as future income tax benefits | (16,355) | 1,072,108 |
| | - | - |

NOTE 8 CURRENT TRADE AND OTHER RECEIVABLES

| | | |
|---|------------------|------------------|
| Trade debtors | 4,616,255 | 2,555,060 |
| Impairment loss and credit claims | (27,671) | (19,802) |
| Other receivable | 8,077 | 243 |
| | 4,596,661 | 2,535,501 |
| Movements in the provision for impairment were: | | |
| Opening balance at 1 July | (19,802) | (18,542) |
| Charge for the year | (21,462) | (11,736) |
| Amounts written off | 13,593 | 10,476 |
| Closing balance at 30 June | (27,671) | (19,802) |

Notes to the financial statements for the year ended 30 June 2016

NOTE 8 CURRENT TRADE AND OTHER RECEIVABLES (CONT'D)

| Trade receivables ageing analysis at 30 June is | Gross 2016 | Impairment 2016 | Gross 2015 | Impairment 2015 |
|---|------------------|--------------------|------------------|--------------------|
| | | \$ | | \$ |
| Not past due | 2,582,656 | - | 1,313,074 | - |
| Past due 0 - 30 days | 1,272,098 | - | 945,617 | - |
| Past due 31-60 days | 517,606 | - | 218,802 | - |
| Past due more than 60 days | 243,895 | (27,671) | 77,567 | (19,802) |
| | 4,616,255 | (27,671) | 2,555,060 | (19,802) |

NOTE 9: INVENTORIES

| | 2016 | 2015 |
|--|------------------|----------------|
| | \$ | \$ |
| Finished goods | 1,234,130 | 393,671 |
| At lower of cost and net realisable value | 1,234,130 | 393,671 |

NOTE 10: OTHER CURRENT ASSETS

| | | |
|------------------------------|----------------|----------------|
| Prepayments and other assets | 156,602 | 341,935 |
| | 156,602 | 341,935 |

NOTE 11: INTANGIBLE ASSETS

| | | |
|-----------------------------|----------------|----------|
| Goodwill at cost – Duelttek | 121,778 | - |
| | 121,778 | - |

(a) Reconciliation of carrying amounts at the beginning and end of the period

| | | |
|-------------------------------------|----------------|-----------|
| Goodwill | | |
| Carrying value as at 1 July | - | 199,486 |
| Impairment | - | (99,485) |
| Transfer to assets held for sale | - | (100,001) |
| Goodwill on acquisition of Duelttek | 121,778 | - |
| Carrying value as at 30 June | 121,778 | - |

NOTE 12: PLANT & EQUIPMENT

| | | |
|--------------------------|----------------|----------------|
| Plant and equipment | | |
| At cost | 779,379 | 1,186,034 |
| Accumulated depreciation | (271,750) | (858,665) |
| | 507,629 | 327,369 |

(a) Reconciliation of carrying amounts at the beginning and end of the period

| | | |
|--|----------------|----------------|
| Plant and equipment | | |
| Carrying value as at 1 July | 327,369 | 526,432 |
| Additions | 302,789 | 334,616 |
| Assets acquired on acquisition of Duelttek | 36,708 | - |
| Transfer to assets held for sale | - | (182,953) |
| Disposals | (23,577) | - |
| Depreciation expense | (135,660) | (350,726) |
| Carrying value as at 30 June | 507,629 | 327,369 |

Notes to the financial statements for the year ended 30 June 2016

NOTE 13: CURRENT TRADE AND OTHER PAYABLES

| | | |
|-------------------------------------|------------------|------------------|
| Trade payables | 2,715,864 | 1,395,547 |
| Accruals | 1,350,045 | 262,984 |
| Goods and services tax (GST) | 41,457 | 48,907 |
| Deposit received - sale of business | - | 515,000 |
| Unearned revenue | 667,398 | 687,877 |
| | 4,774,764 | 2,910,315 |

(a) Trade payables are non-interest bearing and are normally settled on 60-day terms

NOTE 14: BORROWINGS

(a) Current

Secured:

| | | |
|--------------------------|---------|---------|
| Bank and other loans (i) | 643,332 | 835,696 |
| Lease finance (ii) | 112,464 | 47,246 |

Unsecured:

| | | |
|-------------------------|------------------|----------------|
| Convertible Notes (iii) | 2,550,737 | - |
| | 3,306,533 | 882,942 |

(b) Non Current

Secured:

| | | |
|--------------------|---------|---------|
| Lease finance (ii) | 277,181 | 171,025 |
|--------------------|---------|---------|

Unsecured:

| | | |
|-------------------------|----------------|------------------|
| Convertible Notes (iii) | - | 2,550,737 |
| | 277,181 | 2,721,762 |

(i) Both current and non-current secured borrowings, were secured by a fixed and floating charge over Stokes Limited and Stokes Technologies Pty Ltd, Edis Pty Ltd and SKS Services Group Pty Ltd.

(ii) Both current and non-current finance leases were secured by assets acquired utilising finance lease facilities.

(iii) The Convertible Notes are a 3 year loan financial instrument to the company with a 3 year option to convert each Convertible Note to 1 New Share. The Convertible Notes bear interest at a fixed rate of 10% per annum payable quarterly in arrears. In addition, Noteholders will be entitled to receive 1 new option for every 2 new shares issued upon conversion of Convertible Notes. The options will be issued at no additional cost and will be exercisable at any time prior to 30 June 2019 at an exercise price of \$0.35 each.

NOTE 15: PROVISION – EMPLOYEE BENEFITS

| | | |
|---------------------------------------|----------------|----------------|
| Balance at 1 July | 399,110 | 721,711 |
| Provision for the year | 298,929 | 340,823 |
| Amounts used | (413,931) | (417,204) |
| Transfer to liabilities held for sale | - | (246,220) |
| Balance as at 30 June | 284,108 | 399,110 |
| (a) Employee benefits – Current | 268,404 | 319,611 |
| (b) Employee benefits – Non Current | 15,704 | 79,499 |
| | 284,108 | 399,110 |

Notes to the financial statements for the year ended 30 June 2016

NOTE 16: CONTRIBUTED EQUITY

| | | |
|---|-------------------|-------------------|
| 29,151,281 ordinary shares (2015: 29,151,281) | 10,426,352 | 10,426,352 |
| Balance as at 1 July | 10,426,352 | 10,426,352 |
| Balance as at 30 June | 10,426,352 | 10,426,352 |

Capital Management

When managing capital, management's objective is to ensure the consolidated entity continues to maintain optimal returns to shareholders and benefits for other stakeholders. This is achieved through the monitoring of historical and forecast performance and cash flows.

Rights of each type of share

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At shareholders meetings each ordinary share gives entitlement to one vote when a poll is called.

NOTE 17: ACCUMULATED LOSSES

| | | |
|------------------------------|---------------------|---------------------|
| Balance at beginning of year | (11,624,498) | (8,050,804) |
| Net Profit/(Loss) | 54,517 | (3,573,694) |
| Balance at end of year | (11,569,981) | (11,624,498) |

NOTE 18: LOSS PER SHARE

Reconciliation of earnings used in calculating earnings per share:

| | | |
|---|---------------|--------------------|
| (Loss) from continuing operations | (1,492,664) | (2,245,243) |
| Profit/(loss) from discontinued operations | 1,547,181 | (1,328,451) |
| Profit/(loss) used in the calculation of basic loss per share | 54,517 | (3,573,694) |

| | | |
|--|---------------|--------------------|
| Profit/(Loss) used in calculating diluted earnings per share | 54,517 | (3,573,694) |
|--|---------------|--------------------|

Adjustments:

| | | |
|---|----------------|--------------------|
| <i>Interest on convertible notes</i> | 255,774 | 255,074 |
| Earnings used in calculating diluted earnings per share | 310,291 | (3,318,620) |

| | 2016 | 2015 |
|--|---------------------|---------------------|
| | No of Shares | No of Shares |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 29,151,281 | 29,151,281 |
| Effect of dilutive securities: | | |
| Convertible notes | 7,287,820 | 7,287,820 |
| Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share | 36,439,101 | 36,439,101 |

Notes to the financial statements for the year ended 30 June 2016

NOTE 19: PARENT ENTITY DISCLOSURE

The following information has been extracted from the books and records of the parent entity and has been prepared in accordance with the Australian Accounting Standards

| | Notes | 2016 \$ | 2015 \$ |
|--|-------|------------------|------------------|
| Statement of Financial Position | | | |
| a. Current assets | | 2,130,491 | 4,105,235 |
| b. Non current assets | | 109,086 | 448,491 |
| c. Total assets | | 2,239,577 | 4,553,726 |
| d. Current liabilities | | 3,234,826 | 2,895,946 |
| e. Non current liabilities | | 73,896 | 2,740,357 |
| f. Total liabilities | | 3,308,721 | 5,636,302 |
| g. Shareholders equity | | | |
| i) Issued capital | | 10,426,352 | 10,426,352 |
| ii) Accumulated losses | | (11,495,497) | (11,508,927) |
| Statement of Comprehensive Income | | | |
| h. Net Profit / (loss) | | 13,430 | (3,409,569) |
| i. Total comprehensive income | | 13,430 | (3,409,569) |
| Guarantees | | | |
| j. Guarantees provided by parent entity in relation to the debts of the subsidiaries | | 661,943 | 987,662 |

NOTE 20: COMMITMENTS FOR EXPENDITURE

| | | | |
|--|--|----------------|----------------|
| Non-cancellable operating leases: | | | |
| Property: (i) | | | |
| Not later than one year | | 289,340 | 363,486 |
| Later than one year but not later than two years | | 154,097 | 226,385 |
| Later than two years but not later than five years | | 41,958 | 185,362 |
| | | 485,395 | 775,233 |
| Plant and equipment: (ii) | | | |
| Not later than one year | | 11,976 | 26,010 |
| Later than one year but not later than two years | | 11,976 | 22,091 |
| Later than two years but not later than five years | | 24,950 | - |
| | | 48,902 | 48,101 |
| | | 534,297 | 823,334 |

Notes to the financial statements for the year ended 30 June 2016

NOTE 20: COMMITMENTS FOR EXPENDITURE (cont'd)

Leasing Arrangements

- I. The consolidated entity leases a number of premises throughout Australia. The initial rental period of each lease agreement varies between two and five years with renewal options ranging from none to five years. The majority of lease agreements are subject to rental adjustments, some annually or bi-annually, in line with market rates, Consumer Price Index or fixed increases. The Company has provided bank guarantee for a value of \$76,503 as rental bond for leasing of premises.
- II. Relates to photocopier & printers, is for a fixed period, at a fixed rate with no renewal options.

NOTE 21: CONTROLLED ENTITIES

| Name of Company | | Country of Incorporation | Percentage Owned | |
|--------------------------------|--|--------------------------|------------------|------|
| | | | 2016 | 2015 |
| Parent Entity | | | | |
| Stokes Limited | | Australia | | |
| Controlled Entities | | | | |
| SKS Services Group Pty Limited | | Australia | 100% | 100% |
| Dueltek Pty Ltd * | | Australia | 100% | 100% |
| AWR (135761027) Pty Ltd ** | | Australia | 100% | 100% |
| Stokes Technologies Pty Ltd | | Australia | 100% | 100% |
| * | Dueltek Pty Ltd formerly dormant entity known as EDIS Pty Limited | | | |
| ** | AWR (135761027) Pty Ltd formerly known as Aussie Whitegoods Rescue Pty Ltd | | | |

NOTE 22: STATEMENT OF CASH FLOWS

(a) Reconciliation of cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows are reconciled to the related items in the statement of financial position as follows:

| | | |
|--------------|----------------|----------------|
| Cash in hand | 3,492 | 48,946 |
| Cash at bank | 799,687 | 241,743 |
| Deposits | 78,978 | 7,834 |
| | 882,157 | 298,523 |

(b) Financing Facilities:

Maximum available subject to (c) (ii) below

| | | |
|----------------------|------------------|------------------|
| Bank and other loans | 2,000,000 | 2,900,000 |
| Overdraft | - | - |
| | 2,000,000 | 2,900,000 |

(c) Facilities in use at the end of the financial year

| | | |
|--------------------------|------------------|------------------|
| Bank and other loans (i) | 643,332 | 835,696 |
| Lease finance (ii) | 389,645 | 218,271 |
| | 1,032,977 | 1,053,967 |

Notes to the financial statements for the year ended 30 June 2016

NOTE 22: STATEMENT OF CASH FLOWS (cont'd)

| | 2016 | 2015 |
|---|--------------------|--------------------|
| | \$ | \$ |
| i) At the date of this report, the financier continues to provide debtor finance facilities. Debtor finance are secured against the trade receivables. | | |
| ii) At the date of this report, the financier continues to provide finance lease facilities. Finance leases are secured against the assets purchased utilising finance leases | | |
| (d) Reconciliation of net cash used in operating activities to net loss after income tax. | | |
| Net Loss after income tax | 54,517 | (3,573,694) |
| Goodwill impairment | - | 99,485 |
| Profit on sale of business | (1,676,236) | - |
| Depreciation of plant and equipment | 135,660 | 350,726 |
| Amortisation of deferred borrowing costs | 69,972 | 57,693 |
| Disposal of plant and equipment | 23,577 | - |
| Change in net assets and liabilities | | |
| (Increase)/decrease in assets: | | |
| Current receivables | (2,061,160) | (436,344) |
| Current inventories | (621,746) | 809,089 |
| Other current assets | 128,869 | 135,979 |
| Increase/(decrease) in liabilities: | | |
| Current trade payables | 2,379,449 | (22,958) |
| Other liabilities | - | 687,877 |
| Provisions | (131,407) | (76,381) |
| Net cash (used in) operating activities | (1,698,505) | (1,968,528) |

NOTE 23: ACQUISITION OF BUSINESS

On 31 August 2015, the Group completed the acquisition of Duelttek, an audio visual and telecommunications product business. Details of assets and liabilities acquired and consideration paid is as follows:

| | |
|--|----------------|
| Plant and equipment | 36,708 |
| Inventory | 218,713 |
| Prepayments | 18,508 |
| Employee entitlements | (16,405) |
| Goodwill | 121,778 |
| Total consideration paid | 379,302 |
| Details of the purchase consideration: | |
| Deposit paid - June 2015 | 30,000 |
| Cash consideration paid - August 2015 | 349,302 |
| Total Consideration paid | 379,302 |

Contribution since acquisition

Since the acquisition date DueltTek Pty Ltd has contributed revenue of \$1,358,426 and a loss after tax of \$163,926 which is included within the consolidated profit.

Transaction costs

No transaction costs were incurred in relation to the acquisition.

Notes to the financial statements for the year ended 30 June 2016

NOTE 24: FINANCIAL RISK MANAGEMENT

(a) Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

(b) Financial risk management objectives and policies

The Group's principal financial instruments comprise bank loans, finance leases and cash.

The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is the policy of the consolidated entity to regularly review foreign currency exposures.

The degree to which the foreign exchange risk is managed will vary depending on circumstances that prevail at the time the risk is known or anticipated.

There are no foreign currency contracts outstanding at the reporting date (2015: Nil).

The group hold no financial assets or liabilities at fair value

Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with a floating interest rate. The group monitors its exposure to interest rate risk as part of its capital and cash management. Refer Note 16 for more details.

Liquidity risk

Liquidity risk is the risk that an entity will not be able to meet its financial obligation as they fall due. The entity's approach in managing liquidity is to ensure that it will have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions. The entity manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults.

The consolidated entity does not have any significant concentrations of credit risk that arise from exposures to a single debtor or to a group of debtors having a similar characteristic such that their ability to meet their obligations is expected to be affected similarly by changes in economic or other conditions.

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the consolidated entity's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained.

Sensitivity Analysis

The entity has performed a sensitivity analysis relating to its exposure to interest rate risk and foreign currency risk at balance date. This sensitivity analysis concluded there would be no material impact on fair values of financial assets and liabilities.

Notes to the financial statements for the year ended 30 June 2016

NOTE 24: FINANCIAL INSTRUMENTS (cont'd)

| | Within 1 Year | | 1 to 5 Years | | Over 5 Years | | Total | |
|---|--------------------|--------------------|------------------|--------------------|--------------|----------|--------------------|--------------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Consolidated Group | | | | | | | | |
| Financial liabilities due for payment | | | | | | | | |
| Bank loans | (643,332) | (835,696) | - | - | - | - | (643,332) | (835,696) |
| Lease finance | (112,464) | (47,246) | (277,181) | (171,025) | - | - | (389,645) | (218,271) |
| Trade and other payables | (4,107,366) | (1,707,438) | - | - | - | - | (4,107,366) | (1,707,438) |
| Convertible Notes | (2,550,737) | - | - | (2,550,737) | - | - | (2,550,737) | (2,550,737) |
| Total contractual outflows | (7,413,899) | (2,590,380) | (277,181) | (2,721,762) | - | - | (7,691,080) | (5,312,142) |
| Financial assets — cash flows realisable | | | | | | | | |
| Cash and cash equivalents | 882,157 | 298,523 | - | - | - | - | 882,157 | 298,523 |
| Trade and other receivables | 4,596,661 | 2,535,501 | - | - | - | - | 4,596,661 | 2,535,501 |
| Total anticipated inflows | 5,478,818 | 2,834,024 | - | - | - | - | 5,478,818 | 2,834,024 |

(c) Financial Risk Management

Financial Liability and Financial Asset Maturity Analysis

Notes to the financial statements for the year ended 30 June 2016

NOTE 24: FINANCIAL INSTRUMENTS (cont'd)

(d) Interest Rate Risk

The following table details the consolidated entity's exposure to interest rate risk as at 30 June 2016:

| | Weighted average interest rate % | Variable interest rate | Fixed Interest Rate Maturity Less than 1 year | 2 to 5 years | Non-interest bearing | Total |
|--------------------------------|---|---------------------------|--|------------------|-------------------------|------------------|
| Year ended 30 June 2016 | | | | | | |
| Financial Assets | | | | | | |
| Cash and cash equivalents | 1.24 | 73,899 | - | - | 808,258 | 882,157 |
| Current receivables | - | - | - | - | 4,596,661 | 4,596,661 |
| | | 73,899 | - | - | 5,404,919 | 5,478,818 |
| Financial Liabilities | | | | | | |
| Trade and other payables | - | - | - | - | 4,107,366 | 4,107,366 |
| Bank and other loans | 8.7 | 643,332 | 110,966 | 278,679 | - | 1,032,977 |
| Convertible Notes | 10.0 | - | 2,550,737 | - | - | 2,550,737 |
| | | 643,332 | 2,661,703 | 278,679 | 4,107,366 | 7,691,080 |
| Year ended 30 June 2015 | | | | | | |
| Financial Assets | | | | | | |
| Cash and cash equivalents | 1.20 | 249,577 | - | - | 48,946 | 298,523 |
| Current receivables | - | - | - | - | 2,535,501 | 2,535,501 |
| | | 249,577 | - | - | 2,584,447 | 2,834,024 |
| Financial Liabilities | | | | | | |
| Trade and other payables | - | - | - | - | 1,707,438 | 1,707,438 |
| Bank and other loans - | 9.27 | 835,696 | 47,246 | 171,025 | - | 1,053,967 |
| Convertible Notes | 10.0 | - | - | 2,550,737 | - | 2,550,737 |
| | | 835,696 | 47,246 | 2,721,762 | 1,707,438 | 5,312,142 |

Notes to the financial statements for the year ended 30 June 2016

NOTE 24: FINANCIAL INSTRUMENTS (Cont'd)

(e) Fair Value

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their respective fair values, determined in accordance with the accounting policies disclosed in Note 1 to the financial statements.

NOTE 25: REMUNERATION OF AUDITORS

Auditors of the Parent Entity and Group entities
Amounts received or due and receivable by auditors for:

| | 2016 | 2015 |
|---|---------------|---------------|
| | \$ | \$ |
| Audit or review of the financial report of the entity | 73,000 | 79,288 |
| Tax compliance | 15,000 | 13,800 |
| Other assurance services | 9,000 | - |
| | 97,000 | 93,088 |

NOTE 26: CONTINGENT ASSETS AND LIABILITIES

The directors are not aware of any contingent assets or any contingent liabilities as at 30 June 2016 (2015: nil).

NOTE 27: EVENTS AFTER THE BALANCE SHEET DATE

Directors are not aware of any other matters or circumstances not otherwise dealt with in this report that has significantly or may significantly affect the operations of the consolidated entity.

NOTE 28: OPERATING SEGMENT

The Group predominantly operates in a single segment of Technologies Products in Australia, hence there is no information on operating segments provided in this report.

DIRECTORS' DECLARATION

FOR THE FINANCIAL YEAR ENDED 30 June 2016

The directors declare that the financial statements and notes set out on pages 20 to 44 in accordance with the *Corporations Act 2001*:

- (a) Comply with Accounting Standards and the *Corporations Regulations 2001*, and other mandatory professional reporting requirements;
- (b) As stated in Note 1(a) the consolidated financial statements also comply with International Financial Reporting Standards; and
- (c) Give a true and fair view of the financial position of the consolidated entity as at 30 June 2016 and of its performance for the year ended on that date.

In the directors' opinion there are reasonable grounds to believe that Stokes Ltd will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made by the chief executive officer and chief financial officer to the directors in accordance with sections 295A of the *Corporations Act 2001* for the financial year ending 30 June 2016.

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



Con Scrinis
Director

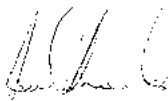
Melbourne
30 August 2016

STOKES LIMITED
AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF STOKES LIMITED

In relation to the independent audit for the year ended 30 June 2016, to the best of my knowledge and belief there have been:

- (i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) No contraventions of any applicable code of professional conduct.

This declaration is in respect of Stokes Limited and the entities it controlled during the year.



D A KNOWLES
Partner

30 August 2016



PITCHER PARTNERS
Melbourne

**STOKES LIMITED
ABN 24 004 554 929
AND CONTROLLED ENTITIES**

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
STOKES LIMITED**

Report on the Financial Report

We have audited the accompanying financial report of Stokes Limited and controlled entities and controlled entities, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement 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 consolidated 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 gives a true and fair view and 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 company's preparation of the financial report that gives a true and fair view 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 company'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.

**STOKES LIMITED
ABN 24 004 554 929
AND CONTROLLED ENTITIES**

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
STOKES LIMITED**

Independence

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

Opinion

In our opinion:

- (a) the financial report of Stokes Limited and controlled entities is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1(e) in the financial report which indicates the existence of material uncertainty that may cast significant doubt about the company's ability to continue as a going concern and therefore, the company 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 18 to 19 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 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.

Opinion

In our opinion, the Remuneration Report of Stokes Limited and controlled entities for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.



D A KNOWLES
Partner

30 August 2016



PITCHER PARTNERS
Melbourne

Shareholder Analysis and Other Stock Exchange Requirements

Statement of security holders as at 29 August 2016

(a) Distribution of shareholders by sizes of holdings

| | | |
|---------------------------------------|------------------|------------|
| | 1 - 1,000 | 170 |
| | 1,001 - 5,000 | 55 |
| | 5,001 - 10,000 | 20 |
| | 10,001 - 100,000 | 47 |
| | 100,001 and over | 27 |
| | Total | 319 |
| Holding less than a marketable parcel | | 170 |

Voting rights – Each ordinary share carries one vote.

Twenty Largest Shareholders

| Shareholder | Number | Percentage |
|---|-------------------|---------------|
| Sandhurst Trustees Ltd <JMFG CONSOL A/C> | 6,966,777 | 23.90 |
| Boom Capital Pty Ltd | 3,786,000 | 12.99 |
| Greg Electrical Contractors Pty Ltd | 3,500,000 | 12.01 |
| Volantor Superannuation Fund Pty Ltd < Volantor Superannuation Fund> | 3,490,000 | 11.97 |
| Prima Growth Fund Pty Ltd | 1,488,668 | 5.11 |
| Miss Kristie Jinks + Mr Matthew Jinks + Miss Lisa Jinks <PV Super Fund A/C> | 1,086,000 | 3.73 |
| Mr Matthew Peter Jinks <M & A PROPERTY A/C> | 824,667 | 2.83 |
| Skycar Investments Pty Ltd <SKYCAR SUPER FUND A/C> | 731,000 | 2.51 |
| Citicorp Nominees Pty Limited | 706,349 | 2.42 |
| Mrs Milly Elkington | 494,830 | 1.70 |
| Pinely Pty Ltd <Peer Family Super Fund A/C> | 473,142 | 1.62 |
| Fudosan Pty Ltd <Kingston Family A/C> | 416,000 | 1.43 |
| Mr Gregory Jinks + Mrs Dorothy Jinks <THE GD SUPER FUND A/C> | 286,000 | 0.98 |
| Volantor Superannuation Fund Pty Ltd < Volantor Superannuation Fund> | 286,000 | 0.98 |
| NCN Investments Pty Ltd <The Nathan Cher Family A/C> | 284,000 | 0.97 |
| Dash Corp Pty Ltd | 268,000 | 0.92 |
| Honan Business Services Pty Limited <HONAN SUPER FUND A/C> | 201,720 | 0.69 |
| Delta Australia Pacific Pty Ltd <Delta Super Fund A/C> | 200,000 | 0.69 |
| Mr Adam James Johnston | 200,000 | 0.69 |
| Mr Robert James Johnston + Mrs Thelma Jean Johnston | 200,000 | 0.69 |
| Total for top 20 | 25,889,153 | 88.81 |
| Total Other investor | 3,262,128 | 11.19 |
| Grand Total | 29,151,281 | 100.00 |

Substantial shareholders as per substantial shareholder advices held at 29 August 2016

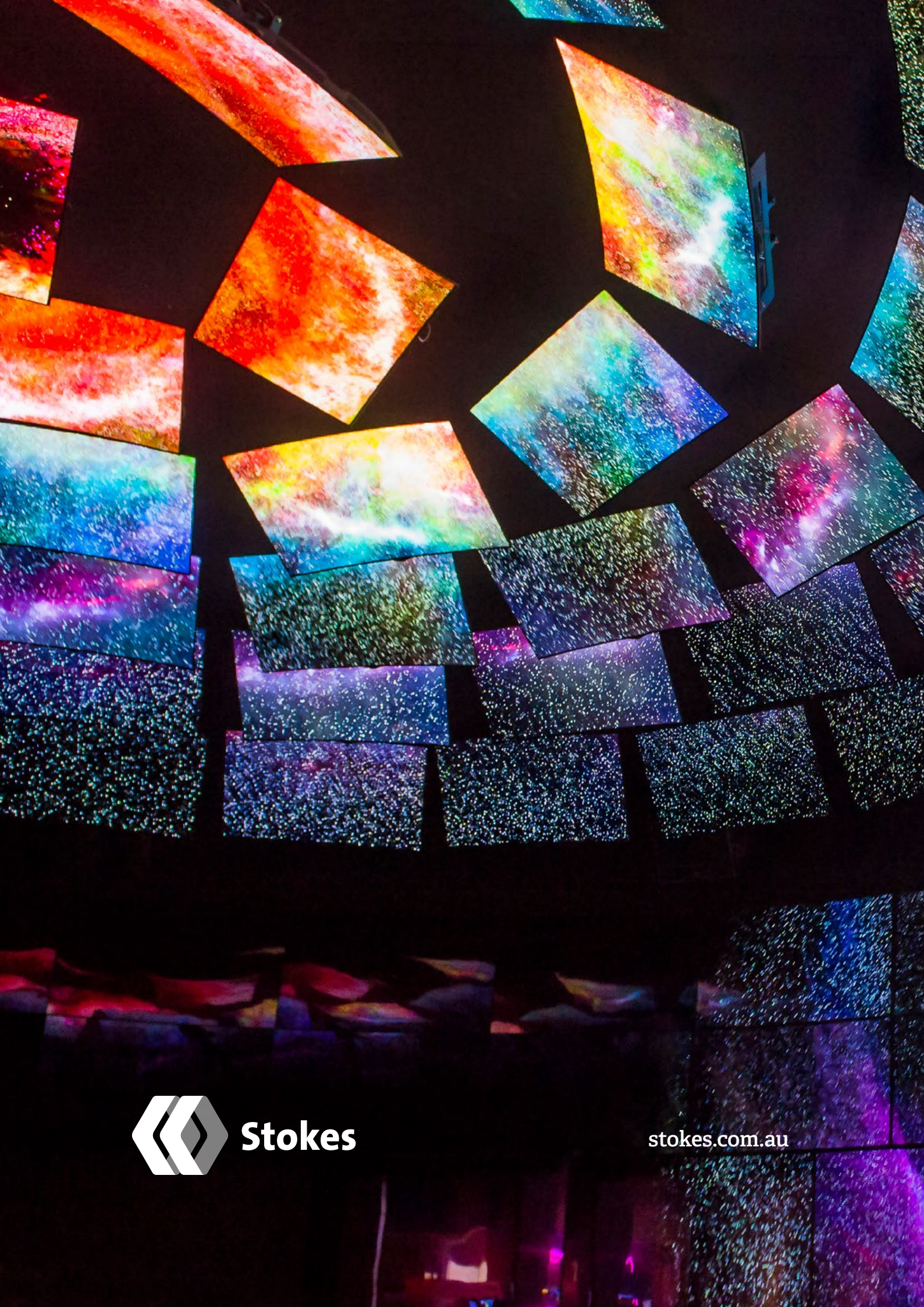
| Name | Number of Ordinary Shares to which Person Entitled |
|------------------------|--|
| JM Financial Group Ltd | 4,477,446 |
| Con Scrinis | 3,786,750 |
| Peter Jinks | 3,786,000 |
| Greg Jinks | 3,786,000 |

(d) Securities subject to voluntary escrow

None

(e) Unquoted equity securities

None



Stokes

stokes.com.au