*Stokes (Australasia) Limited*

# 2003 Report to Shareholders

| | |
|---|---|
| **DIRECTORS** | *Chairman* DESMOND G. S. ANDERSON<br>WILLIAM R. STOKES<br>COLIN K. DAY<br>GORDON B. ELKINGTON |
| **SECRETARY** | WILLIAM R. STOKES |
| **AUDITORS** | DELOITTE TOUCHE TOHMATSU<br>*Chartered Accountants* |
| **SOLICITORS** | BLAKE DAWSON WALDRON |
| **REGISTERED OFFICE** | 24 PALMERSTON ROAD<br>RINGWOOD, VICTORIA 3134<br>TEL. [03] 9845 8300<br>FAX. [03] 9874 1077<br>WEB SITE www.stokes-aus.com.au<br>EMAIL coysec@stokes-aus.com.au |
| **SHARE REGISTER OFFICE** | C/- COMPUTERSHARE INVESTOR SERVICES PTY LIMITED<br>LEVEL 12, 565 BOURKE STREET<br>MELBOURNE, VICTORIA, 3000<br>GPO BOX 2975EE, MELBOURNE, 3001<br>TEL. [03] 9275 7999<br>FAX. [03] 9670 6373 |
| **AUSTRALIAN BUSINESS NUMBER** | 24 004 554 929 |

*Stokes (Australasia) Limited*

# Directors' Report

## TRADING – ANNUAL PROFIT

The Directors of Stokes (Australasia) Limited report that the profit before non recurring costs was $204,000 for the year ended 30 June 2003. The Stokes (New Zealand) subsidiary had a record profit.

However, as previously announced, the company lost a major contract to manufacture dishwasher baskets. On completion of the contract later this year surplus plant will be sold and the remaining plant will be relocated to create space for storage of spare parts. The Wantirna operation will then be relocated to Ringwood.

Following a review of all plant and equipment, the likely realisable value for the surplus plant and the ongoing manufacturing operation at reduced levels the Directors have decided to write down the value of plant and equipment by $890,000. The estimated restructuring costs of relocating the Wantirna operation and reducing staff levels is $700,000. The Directors have decided to provide for these costs in the 2002/3 year. After providing for this non recurring cost the Company recorded a loss of $1.386 million dollars after minority interest and income tax. This result compares with an operating loss of $248,000 after minority interest and income tax last year.

Sales for the year were down by (0.7%). Sales were lost due to the depressed market for appliance spare parts caused by the housing boom and consequent high sales of new appliances.

## BANKING COVENANTS

The Company continues to maintain its key fixed charge cover ratio for the year but was in breach of other lending covenants of its bankers.

## COST REDUCTION

Cost reductions continued to be implemented during the year. The Corporate office at Mitcham was closed in January 2003 and relocated to the factory site at Ringwood. Further cuts were made to the numbers of overhead staff employed.

## MANUFACTURED PRODUCTS

As mentioned in the 2002 Annual Report, the company was given twelve months notice that the contract to manufacture dishwasher baskets for Electrolux had been awarded to another company for a new model dishwasher. Over the past six months demand for baskets for the existing model has been extremely high to allow for a build in stock levels of completed dishwashers prior to the Electrolux factory shutting down to install assembly lines to produce the new model. Excessive overtime and additional casual labour were employed to meet this demand. This led to manufacturing inefficiencies and higher costs of production. Orders for the domestic market were completed in August 2003, but production at a lower rate for export and spares markets will continue until October, when this section will be closed.

Demand for elements for the spare parts market fell during the year. This market has been flat for some time and is not expected to pick up while the boom in construction of domestic dwellings continues.

New products continue to be developed for niche markets. These products mainly relate to domestic water heating and spa bath heaters.

## BADGES AND MEDALLIONS

Badge sales showed an encouraging increase for the year. Local production of metal badges is now minimal with most badges being imported.

*Stokes (Australasia) Limited*

# Directors' Report

**MERCHANDISED PRODUCTS**

The Company continually looks for any opportunity to increase the range of spare parts carried. New products were added to the range during the year. Whereas in the past the Company mainly sold spare parts for Australian made home appliances, alliances have now been established with an increasing number of importers of appliances.

Sales manuals covering washing machine and vacuum spare parts were released during the year. These manuals make it easy for service contractors to choose the correct spare part. They have been well received by the trade as being possibly the most comprehensive and easy to use manuals available.

Sales of Fisher & Paykel spare parts increased encouragingly. The range of parts stocked has been expanded in line with the increased demand. Sales of the Hermetic brand heating elements also grew.

The Company was appointed the Australian distributor for Skope heating spare parts with sales commencing in March. The Company also commenced distributing spare parts for LG appliances in the June quarter. The products are expected to make significant contribution to sales and profits in the years ahead.

**NEW ZEALAND**

Following a pleasing result in the previous year, sales, margins and profits all improved in the year to June 2003. New Zealand sales were up by 10% in a depressed spares market. Costs were reduced by closing the small office and warehouse facility in Christchurch and servicing the whole New Zealand market from the Auckland facility. The New Zealand operation also benefited from a stronger local currency, which reduced the cost of imported merchandise.

**WANTIRNA RELOCATION**

On completion of the dishwasher basket contract surplus plant will be sold. The ongoing plant will be relocated within the factory to create space for storage of spare parts. The stock held at Wantirna will be relocated into the Ringwood factory, prior to expiration of the Wantirna lease in March 2004. Additional offices will be constructed cheaply within the factory building to accommodate the staff working at Wantirna.

With the growth of Appliance Parts sales in recent years the Company outgrew the space available at Wantirna. It was necessary to lease a second warehouse adjacent to the original building. Having all the warehousing in Victoria under the one roof will reduce materials handling and logistic costs significantly.

**CURRENT YEAR**

There will be non recurring costs incurred in the closing of the wire basket sector, retrenching excess employees and relocating the Wantirna operation to Ringwood. These costs are expected to total approximately $700,000. A provision has been made in the accounts in the 2002/3 year to cover these costs.

By the June quarter 2004 the planned restructuring will be completed. Fixed costs will have been reduced so the company can operate profitably at the reduced level of sales. Resources will be in place to grow the core businesses of the company which are appliance spare parts and manufactured products for niche markets.

With the loss of the dishwasher basket contract the Company now primarily markets and distributes spare parts for a wide range of appliances. Previously Stokes concentrated on distributing parts for Australian made appliances, but with the increasing market penetration of imported appliances into Australia, the company has progressively negotiated distribution rights with importers.

The company will continue to manufacture electric heating elements for niche markets such as elements specially designed for industrial and commercial markets where orders are too low to interest importers. Other manufactured products include coiled hot plates for stoves, which are not manufactured in Europe or Asia. An electronic controlled water heating element has been designed and patented by the company.

The company has progressively withdrawn from manufacturing products that are readily sourced on a global basis by major customers. This withdrawal has been costly in recent years, but the restructuring of Stokes is now nearing completion.

# Directors' Report

### EMPLOYEES

The year has again been a difficult one for all employees of Stokes. Excessive overtime was required in some areas to meet customer demand. Retrenchments have also been necessary as the dishwasher basket contract wound down. The Directors warmly thank all employees for their continued support during these difficult times.

### BOARD CHANGES

Mr Gordon Elkington was appointed a Director of the Company on 24 April 2003.

### SUBSEQUENT EVENTS

The land at Ringwood has been sold for $2.5 million with the company entering a contract to lease the land and building for five years, with a further five year option. Part of the proceeds of the sale will be applied to debt reduction. The loans to Suncorp Metway and the ANZ will be repaid, leaving GE Capital as the sole secured creditor. The balance of the proceeds will finance the remaining restructuring costs and the relocation of the Wantirna operation to Ringwood.

### CORPORATE GOVERNANCE

#### Board Composition

The Board of Directors currently comprises four members being the Managing Director and three non-executive Directors.

It is the general policy of the Board that it has a mixture of executive and non-executive Directors thus ensuring a wide range of experience and independent thought in reviewing management's strategies and initiatives for the Company.

The majority of the Board are non-executive directors, who are independent, having no business relationship which could compromise their independence. The roles of Chairman and chief executive officer have been separated, with the Chairman being a non-executive Director.

#### Appointment and Retirement of Directors

The Company's Constitution require that Directors appointed by the Board submit themselves for re-election at the first meeting of shareholders following their appointment. Under the Constitution, one third of the Directors (excluding the Managing Director) must retire by rotation each year and submit themselves for re-election by shareholders. The Board is responsible for succession planning and identification of new Board members.

#### Directors Access to Professional Advice

With the Board's approval, individual Directors may seek independent professional advice at the Company's expense in the furtherance of their duties.

#### Audit Committee

Since 1990, the Board has had a formally constituted Audit Committee. The current members of the Audit Committee are:

Mr. D. G. S. Anderson (Chairman)
Mr. W. R. Stokes
Mr. C. K. Day
Mr. G. B. Elkington

# Directors' Report

The main responsibilities of the Audit Committee are:

- Liaising with the external auditors, including reviewing external audit reports, management responses and ensuring action is taken promptly by management in respect of those reports.
- Monitoring compliance with the Corporations Act 2001 and ASX Listing Rules.
- Assessing the quality of financial reports issued by the Company and reviewing any related party transactions of the Company.

The Committee is also responsible for the nomination of external auditors and for reviewing their remuneration and terms of engagement and the scope and quality of the audit. In fulfilling its responsibilities, the Committee receives regular reports from management and the external auditors. It also meets with the external auditors at least two times a year. The external auditors are encouraged to communicate directly with non-executive directors.

**Remuneration Committee**

The Board has a formally constituted Remuneration Committee. The current members of the Remuneration Committee are:

Mr. D. G. S. Anderson (Chairman)
Mr. C. K. Day
Mr. W. R. Stokes
Mr. G. B. Elkington

The aggregate remuneration available for division amongst the non-executive directors is determined by the shareholders in general meeting.

**Risk Management**

The Company has established arrangements to identify and manage areas of significant business risk.

The consideration of and the approval by the Board each year of the Company's annual budget and business plan, presented by management, assists the Board in identifying areas of significant risk and to adopt strategies to reduce those risks. Other specific arrangements include:

- delegated authorities ensuring that capital expenditure commitments exceeding certain limits are submitted to the Board for approval;
- comprehensive monthly reporting to the Board of operating and financial performance; and
- regular reports by management concerning the Company's systems to ensure compliance with environmental and occupational health and safety requirements.

**Corporate Conduct**

All Directors, executives and employees are expected to act at all times in a lawful, professional and ethical manner.

**Communication with Shareholders**

The Board of Directors aims to ensure that the shareholders are informed of all significant developments affecting the Company's affairs.

**Dealing in Shares**

The Board has adopted guidelines for dealings in the Company's shares which define periods during which dealings may normally occur and the procedures for notifying the Board to be observed prior to any dealing.

# Directors' Report

**Directors' Meetings**
The number of Directors' meetings and meetings of Committees of Directors held during the financial year and the number of meetings attended by each Director (while they were a director or committee member) were:

| | Directors Meetings | | Audit Committee Meetings | | Remuneration Committee Meetings | |
|---|---|---|---|---|---|---|
| | Attended | Held | Attended | Held | Attended | Held |
| D. G. S. Anderson | 14 | 14 | 3 | 3 | - | - |
| W. R. Stokes | 14 | 14 | 3 | 3 | - | - |
| C. K. Day | 14 | 14 | 3 | 3 | - | - |
| G. Elkington | 3 | 3 | - | - | - | - |

**OTHER STATUTORY INFORMATION**

The Directors submit herewith the annual financial report for the financial year ended 30 June 2003. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:-

a) 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 -

William R. Stokes, B. Comm., Age 60.
Chairman and Managing Director from 1974 until 15 November 2001. Mr Stokes continues as Managing Director with Mr Desmond Anderson assuming the role of Chairman from 15 November 2001 He is a Director of the Company since 1967. He is also a Director of Stokes Investments Pty. Ltd., The Australian Electrical and Electronics Manufacturers Association and a General Councillor of the Victorian Branch of the Australian Industry Group.

Colin K. Day, Age 50
1971-1987 worked in IT industry in various systems, programming and management roles. Co-founded the Remington White debt collection company in 1987 which specialised in collections for major banking and financial institutions and telecommunication companies. This company was sold in July 2000.

Desmond G. S. Anderson, Age 69
Former Partner in an International firm of chartered accountants. Former Executive Director of The Herald & Weekly Times Ltd. Former Director of Crawford Productions Group, J C Williamson Group and a number of other companies. Former Chairman of Newspaper Publishers Association of Victoria and The Newsagency Council of Victoria. Currently Executive Chairman of a number of his family companies.

# Directors' Report

Gordon B. Elkington, Age 55
Appointed to the Board on 24 April 2003. Trained in science and engineering and lectured in mathematics at the University of Sydney before qualifying as a barrister. For the past several years, has acted as a director and company secretary of Winpar Holdings Limited. Barrister of the Supreme Court of New South Wales. Former Senior Lecturer at the University of Sydney.

The above named directors held office during and since the end of the financial year except for:

Mr Gordon B. Elkington – appointed 24 April 2003

b) The principal activities of the consolidated entity in the course of the year were the merchandising and distribution of appliance spare parts; valve and camlocks; badges and medallions; electrical switches and controls and the manufacture of electric elements, metal components and wire products.

c) The consolidated loss of the consolidated entity for the financial year after income tax was $1,319,000 (2002: $211,000).

d) Dividends

No dividends were declared or paid during the financial year and the Directors do not intend to declare a dividend in respect of the financial year.

e) During the financial year, there was no significant change in the state of affairs of the consolidated entity other than that referred to in the financial statements, notes thereto, or elsewhere in this report.

f) There has not been any matter or circumstance, other than as referred to elsewhere in this report or in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

g) Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been included in this report.

h) The shares in the Company in which each Director had a relevant interest and the nature and extent of that interest at the date of this report were:

| | Beneficially Owned | Other |
|---|---|---|
| D. G. S. Anderson | - | 1,075,533 (1) |
| C. K. Day | 1,228 | - |
| W. R. Stokes | 366,924 | 340,750 (1) |
| | | 182,020 (2) |
| G. B. Elkington | 80,122 | 93,270 (3) |

(1) Held by connected company, relative or family trust.
(2) Held as trustee of deceased estate.
(3) Held by a public company of which G. B. Elkington is a Director.

## Directors' Report

i) 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, namely Messrs. D. G. S. Anderson, C. K. Day, W. R. Stokes and G. B. Elkington have the benefit of the above indemnity. The indemnity also applies to executive officers of the Company, being the divisional general managers and other executives and managers who are concerned, or take part, in the management of the Company.

During the financial year, the Company paid a premium for an insurance policy insuring any past or present Director, Secretary, executive officer or employee of the Company or its subsidiaries, including the Directors, Secretary and executive officers referred to above, against certain liabilities. In accordance with common commercial practice, the insurance policy prohibits disclosure of the nature of the liability insured against and the amount of the premium.

No amounts have been claimed or paid in respect of the indemnity or insurance policy other than the payment of the insurance premium referred to above.

j) Rounding off of amounts

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the financial report have been rounded off to the nearest thousand dollars.

*Stokes (Australasia) Limited*

# Directors' Report

k) Directors' and Executives' Remuneration

The following table discloses the remuneration of the directors of the company and the five highest remunerated executives of both the company and the consolidated entity (including executive directors).

| Name | Office | Salary/Fees | Benefits | Total |
|---|---|---|---|---|
| W. R. Stokes | Executive Director | 126,646 | 30,439 | 157,085 |
| D. G. S. Anderson | Non-Executive Director | 88,250 | - | 88,250 |
| G. B. Elkington | Non-Executive Director | 4,646 | - | 4,646 |
| C. K. Day | Non-Executive Director | 37,313 | - | 37,313 |
| K. Savaris | Executive | 105,422 | 18,454 | 123,876 |
| P.W. Stokes | Executive | 95,385 | 11,718 | 107,103 |
| W. Haller | Executive | 111,701 | 13,411 | 125,112 |
| I. Spiden | Executive | 46,876 | 39,248 | 86,124 |

Signed in accordance with a resolution of the Directors made pursuant to Section 298(2) of the Corporations Act 2001.

On behalf of the Directors

Desmond G. S. Anderson
Director

William R. Stokes
Director

Colin K. Day
Director

Gordon B. Elkington
Director

Dated at Ringwood Victoria
30 September 2003

*Stokes (Australasia) Limited*

# Statement of Financial Performance for the financial year ended 30 June 2003

| | Note | CONSOLIDATED 2003 $'000 | CONSOLIDATED 2002 $'000 | COMPANY 2003 $'000 | COMPANY 2002 $'000 |
|---|---|---|---|---|---|
| Sales revenue (sale of goods) | 2 | **33,195** | 33,604 | **30,652** | 31,001 |
| Cost of sales | | **(24,831)** | (25,397) | **(23,427)** | (23,871) |
| **Gross Profit** | | **8,364** | 8,207 | **7,225** | 7,130 |
| Other revenue from ordinary activities | 2 | **325** | 153 | **267** | 153 |
| Distribution expenses | | **(1,569)** | (1,602) | **(1,502)** | (1,539) |
| Selling expenses | | **(2,990)** | (3,081) | **(2,636)** | (2,699) |
| Occupancy expenses | | **(503)** | (495) | **(441)** | (433) |
| Administration expenses | | **(2,542)** | (2,703) | **(2,172)** | (2,322) |
| Borrowing costs | 2(c) | **(614)** | (601) | **(610)** | (592) |
| Other expenses from ordinary activities | | **(89)** | (24) | **(82)** | (27) |
| Write-down to recoverable amount – plant and equipment | 2 | **(890)** | - | **(890)** | - |
| Restructure costs | 2 | **(700)** | - | **(700)** | - |
| **(Loss) from Ordinary Activities Before Income Tax Expense** | 2 | **(1,208)** | (146) | **(1,541)** | (329) |
| Income tax expense relating to ordinary activities | 4 | **111** | 65 | **-** | - |
| **(Loss) from Ordinary Activities After Related Income Tax Expense** | | **(1,319)** | (211) | **(1,541)** | (329) |
| Net Profit Attributable to Outside Equity Interests | | **67** | 37 | **-** | - |
| **(Loss) Attributable to Members of the Parent Entity** | 24 | **(1,386)** | (248) | **(1,541)** | (329) |
| Increase in foreign currency translation reserve arising on translation of self-sustaining foreign operations | 23 | **11** | 14 | **-** | - |
| Total revenue, expense and valuation adjustments attributable to members of the parent entity recognised directly in equity | | **11** | 14 | **-** | - |
| **Total changes in equity other than those resulting from transactions with owners as owners** | | **(1,375)** | (234) | **(1,541)** | (329) |
| | | **Cents per share** | Cents per share | | |
| Basic earnings per share | 26 | **(24.5)** | (4.4) | | |
| Diluted earnings per share | 26 | **(24.5)** | (4.4) | | |

*Notes to the financial statements are included on pages 13 to 45.*

*Stokes (Australasia) Limited*

# Statement of Financial Position as at 30 June 2003

| | Note | CONSOLIDATED 2003 $'000 | CONSOLIDATED 2002 $'000 | COMPANY 2003 $'000 | COMPANY 2002 $'000 |
|---|---|---|---|---|---|
| **Current Assets** | | | | | |
| Cash assets | | **425** | 634 | **210** | 618 |
| Receivables | 5 | **4,969** | 5,213 | **4,676** | 4,871 |
| Inventories | 6 | **5,498** | 5,290 | **5,207** | 5,025 |
| Current tax assets | 7 | **21** | 11 | **9** | 9 |
| Other | 8 | **2,377** | 203 | **2,369** | 201 |
| **Total Current Assets** | | **13,290** | 11,351 | **12,471** | 10,724 |
| **Non-Current Assets** | | | | | |
| Other financial assets | 9 | - | - | **2,192** | 2,192 |
| Property, plant and equipment | 10 | **1,808** | 5,445 | **1,718** | 5,335 |
| Intangibles | 11 | **113** | 153 | **30** | 60 |
| Other | 12 | **130** | 89 | **130** | 89 |
| **Total Non-Current Assets** | | **2,051** | 5,687 | **4,070** | 7,676 |
| **Total Assets** | | **15,341** | 17,038 | **16,541** | 18,400 |
| **Current Liabilities** | | | | | |
| Payables | 13 | **3,490** | 4,507 | **3,294** | 4,292 |
| Interest-bearing liabilities | 14 | **5,878** | 5,720 | **5,908** | 5,720 |
| Current tax liabilities | 15 | - | 26 | - | - |
| Provisions | 16 | **1,315** | 708 | **1,288** | 680 |
| **Total Current Liabilities** | | **10,683** | 10,961 | **10,490** | 10,692 |
| **Non-Current Liabilities** | | | | | |
| Interest-bearing liabilities | 17 | **126** | 158 | **126** | 158 |
| Provisions | 18 | **793** | 877 | **793** | 877 |
| Other | 19 | - | - | **2,000** | 2,000 |
| **Total Non-Current Liabilities** | | **919** | 1,035 | **2,919** | 3,035 |
| **Total Liabilities** | | **11,602** | 11,996 | **13,409** | 13,727 |
| **Net Assets** | | **3,739** | 5,042 | **3,132** | 4,673 |
| **Equity** | | | | | |
| Contributed equity | 22 | **5,895** | 5,895 | **5,895** | 5,895 |
| Reserves | 23 | **189** | 178 | **159** | 159 |
| Accumulated losses | 24 | **(2,592)** | (1,206) | **(2,922)** | (1,381) |
| Parent entity interest | | **3,492** | 4,867 | **3,132** | 4,673 |
| Outside equity interest | 25 | **247** | 175 | - | - |
| **Total Equity** | | **3,739** | 5,042 | **3,132** | 4,673 |

*Notes to the financial statements are included on pages 13 to 45.*

*Stokes (Australasia) Limited*

# Statement of Cash Flows for the financial year ended 30 June 2003

| | Note | CONSOLIDATED 2003 $'000 | CONSOLIDATED 2002 $'000 | COMPANY 2003 $'000 | COMPANY 2002 $'000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Receipts from customers | | **33,603** | 34,118 | **31,068** | 31,570 |
| Payments to suppliers and employees | | **(32,805)** | (32,490) | **(30,659)** | (30,180) |
| Interest received | | **8** | 2 | **4** | 2 |
| Interest and other costs of finance paid | | **(614)** | (540) | **(610)** | (529) |
| Income tax paid | | **(147)** | (74) | **-** | - |
| Net cash provided by/(used in) operating activities | 31(c) | **45** | 1,016 | **(197)** | 863 |
| **Cash flows from investing activities** | | | | | |
| Payment for trade manuals | | **(155)** | - | **(155)** | - |
| Payment for property, plant and equipment | 10 | **(344)** | (244) | **(304)** | (235) |
| Proceeds from sale of property, plant and equipment | | **107** | 24 | **92** | 24 |
| Net cash provided by/(used) in investing activities | | **(392)** | (220) | **(367)** | (211) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from borrowings | | **337** | - | **367** | - |
| Repayment of borrowings | | **(211)** | (423) | **(211)** | (383) |
| Net cash provided by/(used in) financing activities | | **126** | (423) | **156** | (383) |
| Net increase/(decrease) in cash held | | **(221)** | 373 | **(408)** | 269 |
| Cash at the beginning of the financial year | | **634** | 248 | **618** | 349 |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | | **12** | 13 | **-** | - |
| **Cash at the end of the financial year** | 31(a) | **425** | 634 | **210** | 618 |

*Notes to the financial statements are included on pages 13 to 45.*

*Stokes (Australasia) Limited*

# Notes to the financial statements for the financial year ended 30 June 2003

## 1. SUMMARY OF ACCOUNTING POLICIES

### Financial Reporting Framework

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, applicable Accounting Standards and Urgent Issues Group Consensus Views, and complies with other requirements of the law.

The financial report has been prepared on the basis of historical cost and, except where stated, does not take into account changing money values or current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

### Going Concern Basis of Accounting

The financial report has been prepared in accordance with generally accepted accounting principles which are based on the company and consolidated entity continuing as going concerns.

To continue as going concerns, the company and consolidated entity must continue to be supported by their financier.

The company and consolidated entity have maintained the key covenant relating to the "Fixed Charge Cover" since June 2002. During the year the company and consolidated entity breached one of the lending covenants originally agreed with their financier in November 2000, relating to net tangible asset backing. The finance facility is technically 'on demand'. The directors have liaised closely with the financiers particularly as a result of these breaches and are continuing negotiations with their financiers. The finance facility expires and is due for renewal in November 2003. These borrowings have been classified in the financial report as current liabilities. The financiers have been provided with a forecast for the 12 months ending 30 June 2004. The forecast indicates that the critical covenant, "Fixed Charge Cover" will be met during the year ending 30 June 2004. The directors are of the view that they will continue to have the support of their financiers subject to forecasts being met, and that the facility will be renewed.

The Directors are of the opinion that the forecasts will be achieved. Accordingly, while the financier has retained all rights in relation to the breaches, the Directors believe that financial support will continue up to the signing of the next annual financial report for the year ending 30 June 2004.

Without the support of the financier, and/or securing alternative sources of finance, there is significant uncertainty that the company and consolidated entity will continue as going concerns.

If the company and consolidated entity are unable to continue as going concerns, they may be required to realise their assets and extinguish their liabilities at amounts different to that stated in the financial report.

No adjustments have been made to the financial report relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities should the company and consolidated entity not continue as going concerns.

### Significant Accounting Policies

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby, ensuring that the substance of the underlying transactions and other events is reported.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

a) *Principles of Consolidation*

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its controlled entities as defined in AASB1024 "Consolidated Accounts". A list of controlled entities appears in Note 29. Consistent accounting policies have been employed in the preparation and presentation of the consolidated financial statements.

## Notes *(continued)*

The consolidated financial statements include the information and results of each controlled entity from the date on which the company obtains control until such time as the company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

b) *Receivables*

Trade receivables and other receivables are recorded at amounts due less any provision for doubtful debts.

c) *Inventories*

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each class of inventory, with the majority being valued on a first in first out or average cost basis.

d) *Borrowing Costs*

Costs incurred in establishing financing facilities in November 2000 have been capitalised and are amortised over the period of the facility, being three years.

Capitalised leased assets are amortised on a straight line basis over the estimated useful life of the asset.

Finance lease payments are allocated between interest expense and reduction of lease liability over the term of the lease. The interest expense is determined by applying the interest rate implicit in the lease to the outstanding lease liability at the beginning of each lease payment period.

Operating lease payments are recognised as an expense on a basis which reflects the pattern in which economic benefits from the leased assets are consumed.

f) *Goodwill*

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable net assets acquired, is amortised on a straight line basis over a period of 10 years.

g) *Recoverable Amount of Non-Current Assets*

Non-current assets are written down to recoverable amount where the carrying value of any non-current asset exceeds recoverable amount. In determining the recoverable amount of non-current assets, the expected net cash flows have not been discounted to their present value.

h) *Payables*

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

# **Notes** *(continued)*

*i) Interest-Bearing Liabilities*

Bills payable are recorded at an amount equal to their face value, with the discount amortised over the period until maturity.

Other loans are recorded at an amount equal to the net proceeds received.

Interest expense is recognised on an accrual basis.

*j) Employee Benefits*

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave, when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of wages and salaries, annual leave and long service leave expected to be settled within 12 months, are measured at their nominal values using remuneration rates expected to apply at the time of settlement

Provisions made in respect of long service leave which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to the reporting date.

*k) Revenue Recognition*

Revenue from the sale of goods and disposal of other assets is recognised when the consolidated entity has passed control of the goods and other assets to the buyer.

Commission and rebate revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement.

*l) Depreciation*

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line or diminishing value basis as appropriate so as to write off the net cost or other revalued amount of each asset during its expected useful life. Depreciation is not provided for assets in their first year of operation.

The following are the estimated useful lives used in the calculation of depreciation:

| | |
|---|---|
| Plant and equipment | 3-17 years |
| Equipment under finance lease | 5-17 years |
| Buildings | 50 years |

*m) Income Tax*

Tax effect accounting principles have been adopted whereby income tax expense has been calculated on pre-tax accounting profits after adjustment for permanent differences. The tax effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting, is shown at current taxation rates in provision for deferred income tax and future income tax benefit, as applicable.

# Notes *(continued)*

*n) Goods and Services Tax*

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

*o) Land and Buildings For Resale*

Land and buildings expected to be sold within the next twelve months are recorded at the lower of cost and net realisable value. Depreciation was charged up until the date it was decided to sell the land and buildings, being 30 June 2003. This has been disclosed in other current assets in the Statement of Financial Position.

*p) Foreign Currency*

Financial statements of self-sustaining foreign controlled entities are translated at reporting date using the current rate method and exchange differences are taken directly to the foreign currency translation reserve.

All foreign currency transactions during the year have been brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at balance date are translated at the exchange rate existing at that date.

Exchange differences are brought to account in the statement of financial performance of the financial period in which they arise.

*q) Acquisition of Assets*

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition.

*r) Investments*

Investments in controlled entities are recorded at cost.
Dividend revenue is recognised on a receivable basis.

# **Notes** *(continued)*

s) *Financial Instruments Issued by the Company*

*Debt and Equity Instruments*
Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

*Transaction Costs on the Issue of Equity Instruments*
Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

*Interest and Dividends*
Interest and dividends are classified as expenses or as distributions of profit consistent with the statement of financial position classification of the related debt or equity instruments.

t) *Research and Development Costs*

Research and development costs are recognised as an expense when incurred

u) *Comparatives*

Comparative financial information may be reclassified to ensure comparability with the current reporting period. Where there is a material amendment to the classification of comparative financial information, the nature, reason and amount of the reclassification is disclosed. The consolidated entity has followed the presentation and disclosure requirements of revised Accounting Standard AASB 1028 "Employee Benefits" in the preparation of this financial report. The effect of the change in accounting policy is not material (approximately $15,000).

v) *Provisions*

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is probable that recovery will be received and the amount of the receivable can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flow estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

*Restructure Provision*

The restructure provision relates to the relocation of the Wantirna factory and associated redundancy costs.

*Stokes (Australasia) Limited*

## Notes *(continued)*

| | Note | CONSOLIDATED 2003 $'000 | CONSOLIDATED 2002 $'000 | COMPANY 2003 $'000 | COMPANY 2002 $'000 |
|---|---|---|---|---|---|
| **2. LOSS FROM ORDINARY ACTIVITIES** | | | | | |
| Loss from ordinary activities before income tax includes the following items of revenue and expense: | | | | | |
| **(a) Operating Revenue** | | | | | |
| Sales revenue – sale of goods | | **33,195** | 33,604 | **30,652** | 31,001 |
| Other revenue from operating activities: | | | | | |
| Interest revenue | | **8** | 2 | **4** | 2 |
| Net foreign exchange gain | | **55** | 51 | **55** | 51 |
| Sundry revenue | | **155** | 76 | **116** | 76 |
| | | **33,413** | 33,733 | **30,827** | 31,130 |
| **(b) Non-Operating Revenue** | | | | | |
| Proceeds from the sale of assets: | | | | | |
| - Non-current plant and machinery | | **107** | 24 | **92** | 24 |
| Total other revenue from ordinary activities | | **325** | 153 | **267** | 153 |
| | | **33,520** | 33,757 | **30,919** | 31,154 |
| **(c) Expenses** | | | | | |
| Borrowing Costs: | | | | | |
| Interest – other entities | | **575** | 546 | **571** | 537 |
| Finance leases - finance charges | | **39** | 55 | **39** | 55 |
| | | **614** | 601 | **610** | 592 |
| Depreciation and amortisation of non-current assets in: | | | | | |
| Freehold land and buildings | | **18** | 18 | **18** | 18 |
| Plant and equipment | | **643** | 692 | **588** | 638 |
| Leased plant and equipment | | **157** | 171 | **157** | 171 |
| Goodwill | | **40** | 44 | **30** | 30 |
| Borrowing costs | | **63** | 63 | **63** | 63 |
| Trade manuals | | **51** | - | **51** | - |
| | | **972** | 988 | **907** | 920 |
| Impairment of plant and equipment write down | | **890** | - | **890** | - |

*Stokes (Australasia) Limited*

## Notes *(continued)*

| | Note | CONSOLIDATED 2003 $'000 | CONSOLIDATED 2002 $'000 | COMPANY 2003 $'000 | COMPANY 2002 $'000 |
|---|---|---|---|---|---|
| **2. LOSS FROM ORDINARY ACTIVITIES (continued)** | | | | | |
| **(c) Expenses (continued)** | | | | | |
| Net bad and doubtful debts | | **50** | 108 | **48** | 105 |
| Allowance for credit claims | | **46** | - | **46** | - |
| Inventory - Write-downs and other losses | | **180** | - | **180** | - |
| Operating lease rental expenses | | **358** | 401 | **302** | 320 |
| Research and development costs | | **53** | 70 | **53** | 70 |
| Provision for restructure – Appliance Parts Division | | **700** | - | **700** | - |

*Stokes (Australasia) Limited*

# Notes *(continued)*

| | Note | CONSOLIDATED 2003 $ | CONSOLIDATED 2002 $ | COMPANY 2003 $ | COMPANY 2002 $ |
|---|---|---|---|---|---|
| **3. REMUNERATION OF DIRECTORS AND EXECUTIVES** | | | | | |
| (a) The Directors of Stokes (Australasia) Limited during the year were: | | | | | |
| W. R. Stokes | | | | | |
| D. G. S. Anderson | | | | | |
| C. K. Day | | | | | |
| G. B. Elkington | | | | | |
| (b) The aggregate of income paid or payable or otherwise made available, in respect of the financial year, to all directors of the company, directly or indirectly, by the company or by any related party. | | | | **287,294** | 599,026 |
| The aggregate of income paid or payable, or otherwise made available, in respect of the financial year, to all directors of each entity in the consolidated entity, directly or indirectly, by the entities in which they are directors or by any related party. | | **398,995** | 707,609 | | |

The number of directors of the company whose income falls within the following bands is set out below:

| $ | COMPANY 2003 No. | COMPANY 2002 No. |
|---|---|---|
| 0 - 9,999 | **1** | 2 |
| 10,000 - 19,999 | **-** | 1 |
| 20,000 - 29,999 | **-** | 1 |
| 30,000 - 39,999 | **1** | 1 |
| 80,000 - 89,999 | **1** | - |
| 110,000 - 119,999 | **-** | - |
| 140,000 - 149,999 | **-** | 1 |
| 150,000 - 159,999 | **1** | 1 |
| 210,000 - 219,999 | **-** | 1 |

| | Note | CONSOLIDATED 2003 $ | CONSOLIDATED 2002 $ | COMPANY 2003 $ | COMPANY 2002 $ |
|---|---|---|---|---|---|
| **3. REMUNERATION OF DIRECTORS AND EXECUTIVES (Continued)** | | | | | |
| (c) Aggregate remuneration of executive officers of the company and each entity in the consolidated entity working mainly in Australia receiving $100,000 or more (including executive directors) from the company or a related party and of the consolidated entity from entities in the consolidated entity or a related party. | | **499,765** | 887,444 | **388,064** | 887,444 |

The number of executives (including executive directors) whose income falls within the following bands is set out below:

| $ | **No.** | No. | **No.** | No. |
|---|---|---|---|---|
| 100,000 – 109,999 | **1** | 1 | **1** | 1 |
| 110,000 – 119,999 | **1** | - | **-** | - |
| 120,000 - 129,999 | **1** | 1 | **1** | 1 |
| 130,000 - 139,999 | **-** | 1 | **-** | 1 |
| 140,000 - 149,999 | **-** | 1 | **-** | 1 |
| 150,000 - 159,999 | **1** | 1 | **1** | 1 |
| 210,000 - 219,999 | **-** | 1 | **-** | 1 |

## Notes *(continued)*

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2003 $'000** | 2002 $'000 | **2003 $'000** | 2002 $'000 |
| **4. INCOME TAX** | | | | |
| (a) The prima facie income tax expense/(benefit) on pre-tax accounting profit/(loss) reconciles to the income tax expense/(benefit) in the financial statements as follows: | | | | |
| Profit/(loss) from ordinary activities before income tax | **(1,208)** | (146) | **(1,541)** | (329) |
| Income tax expense/(benefit) calculated at 30% | **(362)** | (44) | **(462)** | (98) |
| Tax effect of permanent differences | | | | |
| Recoverable amount write-down of assets | **267** | - | **267** | - |
| Amortisation of Goodwill | **14** | 14 | **9** | 10 |
| Other | **7** | 10 | **7** | 10 |
| Underprovision of income tax loss in prior year | **-** | (6) | **-** | (13) |
| Timing differences and tax losses not brought to account as future income tax benefits (Note 4(b)) | **185** | 91 | **179** | 91 |
| | **111** | 65 | **-** | - |
| (b) Certain future income tax benefits have not been recognised as an asset: | | | | |
| Revenue items | | | | |
| Attributable to timing differences, the benefits of which are not assured beyond any reasonable doubt | **434** | 396 | **435** | 396 |
| Attributable to tax losses, the benefits of which are not virtually certain of realisation | **1,267** | 1,126 | **1,267** | 1,126 |
| | **1,701** | 1,522 | **1,702** | 1,522 |

The taxation benefits of tax losses and timing differences not brought to account will only be obtained if:

(i) assessable income is derived of a nature and of amount sufficient to enable the benefit from the deductions to be realised;

(ii) conditions for deductibility imposed by the law are complied with; and

(iii) no changes in tax legislation adversely affect the realisation of the benefit from the deductions.

*Stokes (Australasia) Limited*

## Notes *(continued)*

### 4. INCOME TAX (Continued)

**Tax Consolidation System**

Legislation to allow groups, comprising a parent entity and its Australian resident wholly-owned entities, to elect to consolidate and be treated as a single entity for income tax purposes was substantively enacted on 21 October 2002. This legislation, which includes both mandatory and elective elements, is applicable to the company.

At the date of this report the directors have not assessed the financial effect, if any, the legislation may have on the company and the consolidated entity and, accordingly, the directors have not made a decision whether or not to elect to be taxed as a single entity. The financial effect of the implementation of the tax consolidation system on the economic entity has not been recognised in the financial statements.

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2003 $'000** | 2002 $'000 | **2003 $'000** | 2002 $'000 |
| **5. CURRENT RECEIVABLES** | | | | |
| Trade debtors | **5,105** | 5,303 | **4,807** | 4,956 |
| *Less:* Allowance for doubtful debts | **(90)** | (90) | **(85)** | (85) |
| *Less:* Allowance for credit claims | **(46)** | - | **(46)** | - |
| | **4,969** | 5,213 | **4,676** | 4,871 |
| **6. CURRENT INVENTORIES** | | | | |
| At cost: | | | | |
| Raw materials | **923** | 830 | **836** | 753 |
| Work in progress | **652** | 465 | **652** | 465 |
| Finished goods | **3,780** | 3,706 | **3,576** | 3,518 |
| | **5,355** | 5,001 | **5,064** | 4,736 |
| At net realisable value: | | | | |
| Work in progress | **89** | 128 | **89** | 128 |
| Finished goods | **54** | 161 | **54** | 161 |
| | **143** | 289 | **143** | 289 |
| | **5,498** | 5,290 | **5,207** | 5,025 |

*Stokes (Australasia) Limited*

## Notes *(continued)*

| | | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|---|
| | | **2003 $'000** | 2002 $'000 | **2003 $'000** | 2002 $'000 |
| **7.** | **CURRENT TAX ASSETS** | | | | |
| | Current tax assets | **21** | 11 | **9** | 9 |
| **8.** | **OTHER CURRENT ASSETS** | | | | |
| | Other debtors and prepayments | **192** | 203 | **184** | 201 |
| | Freehold land and buildings for resale (Note 10) (i) | **2,185** | - | **2,185** | - |
| | Total other current assets | **2,377** | 203 | **2,369** | 201 |

(i) Aggregate depreciation allocated during the year is recognised as an expense and disclosed in note 2 to the financial statements.

| | **2003 $'000** | 2002 $'000 |
|---|---|---|
| <u>Current value of Freehold Land & Buildings</u> | | |
| An independent valuation of Freehold Land & Buiildings was performed as at 30 June 2002 by Mr C Dupen, AAPI Certified Practising Valuer of McGee National Property Consultant. The valuation was performed on the basis of market value – existing use (refer Note 36). | **2,500** | 2,500 |

| | | CONSOLIDATED 2003 $'000 | CONSOLIDATED 2002 $'000 | COMPANY 2003 $'000 | COMPANY 2002 $'000 |
|---|---|---|---|---|---|
| **9.** | **OTHER NON-CURRENT FINANCIAL ASSETS** | | | | |
| | -At cost | | | | |
| | Shares in controlled entities (Note 29) | - | - | **2,192** | 2,192 |

*Stokes (Australasia) Limited*

# Notes *(continued)*

## 10. PROPERTY, PLANT & EQUIPMENT

| | Consolidated | | | |
|---|---|---|---|---|
| | Freehold Land & Buildings $'000 | Plant and Equipment $'000 | Equipment under Finance Lease $'000 | TOTAL $'000 |
| ***Gross Carrying Amount (at cost)*** | | | | |
| Balance at 30 June 2002 | 2,250 | 11,864 | 1,167 | 15,281 |
| Additions | 7 | 270 | 67 | 344 |
| Disposals | - | (2,154) | - | (2,154) |
| Recoverable amount write-down (i) | - | (808) | (82) | (890) |
| Transfers to other current assets – Freehold land and buildings - for resale (Note 8) | (2,257) | - | - | (2,257) |
| Transfers of assets | - | 632 | (632) | - |
| Net foreign currency exchange differences arising on translation of financial statements of self sustaining foreign operations | - | 10 | - | 10 |
| Balance at 30 June 2003 | - | 9,814 | 520 | 10,334 |
| ***Accumulated Depreciation/ Amortisation*** | | | | |
| Balance at 30 June 2002 | (54) | (9,242) | (540) | (9,836) |
| Disposals | - | 2,062 | - | 2,062 |
| Depreciation expense | (18) | (643) | (157) | (818) |
| Transfers to other current assets – Freehold land and buildings - for resale (Note 8) | 72 | - | - | 72 |
| Transfers of assets | - | (394) | 394 | - |
| Net foreign currency exchange differences arising on translation of financial statements of self sustaining foreign operations | - | (6) | - | (6) |
| Balance at 30 June 2003 | - | (8,223) | (303) | (8,526) |
| ***Net Book Value*** | | | | |
| As at 30 June 2002 | 2,196 | 2,622 | 627 | 5,445 |
| As at 30 June 2003 | - | 1,591 | 217 | 1,808 |

# **Notes** *(continued)*

## 10. PROPERTY, PLANT & EQUIPMENT (Continued)

| | Company | | | |
|---|---|---|---|---|
| | Freehold Land & Buildings $'000 | Plant and Equipment $'000 | Equipment under Finance Lease $'000 | TOTAL $'000 |
| ***Gross Carrying Amount (at cost)*** | | | | |
| Balance at 30 June 2002 | 2,250 | 11,606 | 1,167 | 15,023 |
| Additions | 7 | 230 | 67 | 304 |
| Disposals | - | (2,123) | - | (2,123) |
| Recoverable amount write-down (i) | - | (808) | (82) | (890) |
| Transfers to other current assets – Freehold land and buildings - for resale (Note 8) | (2,257) | - | - | (2,257) |
| Transfers of assets | - | 632 | (632) | - |
| Balance at 30 June 2003 | - | 9,537 | 520 | 10,057 |
| ***Accumulated Depreciation/ Amortisation*** | | | | |
| Balance at 30 June 2002 | (54) | (9,094) | (540) | (9,688) |
| Disposals | - | 2,040 | - | 2,040 |
| Depreciation Expense | (18) | (588) | (157) | (763) |
| Transfers of assets | - | (394) | 394 | - |
| Transfers to other current assets – Freehold land and buildings - for resale (Note 8) | 72 | - | - | 72 |
| Balance at 30 June 2003 | - | (8,036) | (303) | (8,339) |
| ***Net Book Value*** | | | | |
| As at 30 June 2002 | 2,196 | 2,512 | 627 | 5,335 |
| As at 30 June 2003 | - | 1,501 | 217 | 1,718 |

*Stokes (Australasia) Limited*

## **Notes** *(continued)*

### 10. PROPERTY, PLANT & EQUIPMENT (Continued)

Aggregate depreciation allocated during the year is recognised as an expense and disclosed in Note 2 to the financial statements.

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2003 $'000** | 2002 $'000 | **2003 $'000** | 2002 $'000 |
| **(i) Assets written down to recoverable amount** | | | | |
| Plant and equipment and Equipment under Finance Lease At recoverable amount | **500** | - | **500** | - |
| Less: subsequent depreciation | **-** | - | **-** | - |
| | **500** | - | **500** | - |
| At cost | **1,308** | 3,249 | **1,218** | 3,139 |
| Total Plant and Equipment and Equipment under Finance Lease | **1,808** | 3,249 | **1,718** | 3,139 |

Assumptions made in respect to recoverable amount

The recoverable amount of these assets have been determined by the directors based on their scrap resale value, or their potential value in the second hand market.

## Notes *(continued)*

| | Note | CONSOLIDATED 2003 $'000 | CONSOLIDATED 2002 $'000 | COMPANY 2003 $'000 | COMPANY 2002 $'000 |
|---|---|---|---|---|---|
| **11. INTANGIBLES** | | | | | |
| Goodwill | | **491** | 491 | **361** | 361 |
| *Less:* Accumulated amortisation | | **(378)** | (338) | **(331)** | (301) |
| | | **113** | 153 | **30** | 60 |

Aggregate amortisation allocated has been recognised as an expense as disclosed in Note 2 to the financial statements.

| | Note | CONSOLIDATED 2003 $'000 | CONSOLIDATED 2002 $'000 | COMPANY 2003 $'000 | COMPANY 2002 $'000 |
|---|---|---|---|---|---|
| **12. OTHER NON-CURRENT ASSETS** | | | | | |
| Borrowing costs (Note 1(d)) | | **189** | 189 | **189** | 189 |
| Less: Accumulated amortisation | | **(163)** | (100) | **(163)** | (100) |
| | | **26** | 89 | **26** | 89 |
| Trade manuals – at cost | | **155** | - | **155** | - |
| Less: Accumulated amortisation | | **(51)** | - | **(51)** | - |
| | | **104** | - | **104** | - |
| | | **130** | 89 | **130** | 89 |

Aggregate amortisation allocated has been recognised as an expense as disclosed in Note 2 to the financial statements.

| | Note | CONSOLIDATED 2003 $'000 | CONSOLIDATED 2002 $'000 | COMPANY 2003 $'000 | COMPANY 2002 $'000 |
|---|---|---|---|---|---|
| **13. CURRENT PAYABLES** | | | | | |
| Trade payables | | **2,589** | 3,411 | **2,474** | 3,294 |
| Accruals | | **790** | 999 | **719** | 901 |
| Goods and services tax (GST) | | **111** | 97 | **101** | 97 |
| | | **3,490** | 4,507 | **3,294** | 4,292 |

| | Note | CONSOLIDATED 2003 $'000 | CONSOLIDATED 2002 $'000 | COMPANY 2003 $'000 | COMPANY 2002 $'000 |
|---|---|---|---|---|---|
| **14. CURRENT INTEREST-BEARING LIABILITIES** | | | | | |
| **Secured:** | | | | | |
| Finance lease liability – (refer Note 21) (ii) | | **150** | 329 | **150** | 329 |
| Bank and other loans (i) (refer Notes 1 & 31(b)) | | **5,728** | 5,391 | **5,728** | 5,391 |
| | | **5,878** | 5,720 | **5,878** | 5,720 |
| **Unsecured:** | | | | | |
| Loan from controlled entity (Note 30 (c)) | | **-** | - | **30** | - |
| | | **5,878** | 5,720 | **5,908** | 5,720 |

(i) *Secured by a fixed and floating charge over the consolidated entity's assets.*
(ii) *Effectively secured by the assets leased.*

# **Notes** *(continued)*

| | Note | CONSOLIDATED 2003 $'000 | CONSOLIDATED 2002 $'000 | COMPANY 2003 $'000 | COMPANY 2002 $'000 |
|---|---|---|---|---|---|
| **15. CURRENT TAX LIABILITIES** | | | | | |
| Income tax payable | | - | 26 | - | - |
| **16. CURRENT PROVISIONS** | | | | | |
| Employee benefits (Note 20) | | **565** | 643 | **538** | 615 |
| Retrenchments (Note 20) | | **350** | 65 | **350** | 65 |
| Provision for restructure – Appliance Parts Division (ii) | | **400** | - | **400** | - |
| | | **1,315** | 708 | **1,288** | 680 |
| **(i) Retrenchment Costs** | | | | | |
| Opening balance | | **65** | 140 | **65** | 140 |
| Additional provision recognised | | **315** | - | **315** | - |
| Reduction arising from payments/other sacrifices of future economic benefits | | **(30)** | (75) | **(30)** | (75) |
| Closing balance | | **350** | 65 | **350** | 65 |
| **(ii) Provision for Restructure – Appliance Parts Division** | | | | | |
| Opening balance | | - | - | - | - |
| Additional provision recognised | | **400** | - | **400** | - |
| Reduction arising from payments/other sacrifices of future economic benefits | | - | - | - | - |
| Closing balance | | **400** | - | **400** | - |
| **17. NON-CURRENT INTEREST-BEARING LIABILITIES** | | | | | |
| **Secured:** | | | | | |
| Finance lease liability – (refer Note 21) (i) | | **126** | 158 | **126** | 158 |
| **18. NON-CURRENT PROVISIONS** | | | | | |
| Employee benefits (Note 20) | | **793** | 877 | **793** | 877 |

*(i) Effectively secured by the assets leased.*

*Stokes (Australasia) Limited*

**Notes** *(continued)*

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2003 $'000** | 2002 $'000 | **2003 $'000** | 2002 $'000 |

## 19. OTHER NON-CURRENT LIABILITIES

| | | | | |
|---|---|---|---|---|
| **Unsecured:** | | | | |
| Loan from wholly-owned entity (Note 30(c)) | **-** | - | **2,000** | 2,000 |

## 20 EMPLOYEE BENEFITS

The aggregate employee benefits recognised and included in the financial statements is as follows:

| | 2003 $'000 | 2002 $'000 | 2003 $'000 | 2002 $'000 |
|---|---|---|---|---|
| Provision for employee benefits: | | | | |
| Current (Note 16) | **565** | 643 | **538** | 615 |
| Non-Current (Note 18) | **793** | 877 | **793** | 877 |
| Provision for retrenchments | | | | |
| Current (Note 16) | **350** | 65 | **350** | 65 |
| Accrued wages and salaries (i) | **-** | - | **-** | - |
| | **1,708** | 1,585 | **1,681** | 1,557 |

| | **2003 No** | 2002 No | **2003 No** | 2002 No |
|---|---|---|---|---|
| Number of employees at end of financial year | 182 | 198 | 168 | 178 |

(i) Accrued wages and salaries are included in the accruals balance as disclosed in note 13 to the financial report.

*Stokes (Australasia) Limited*

## Notes *(continued)*

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2003 $'000** | 2002 $'000 | **2003 $'000** | 2002 $'000 |
| **21. FINANCE LEASE LIABILITIES** | | | | |
| **Finance lease commitments:** | | | | |
| Not later than one year | **169** | 360 | **169** | 360 |
| Later than one year and not later than two years | **104** | 92 | **104** | 92 |
| Later than two years and not later than five years | **30** | 82 | **30** | 82 |
| Minimum finance lease payments | **303** | 534 | **303** | 534 |
| *Deduct:* Future finance charges | **(27)** | (47) | **(27)** | (47) |
| **Finance lease liabilities** | **276** | 487 | **276** | 487 |
| Included in the financial statements as: | | | | |
| Interest-Bearing Liabilities | | | | |
| Current (Note 14) | **150** | 329 | **150** | 329 |
| Non-current (Note 17) | **126** | 158 | **126** | 158 |
| | **276** | 487 | **276** | 487 |

The finance leases for plant and equipment and motor vehicles have terms of between three and five years and do not include renewal options although new leases may be executed for those items previously leased.

## Notes *(continued)*

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2003 $'000** | 2002 $'000 | **2003 $'000** | 2002 $'000 |
| **22. CONTRIBUTED EQUITY** | | | | |
| 5,651,250 ordinary shares (2002: 5,651,250) | **5,895** | 5,895 | **5,895** | 5,895 |

**Fully Paid Ordinary Shares**
Fully paid ordinary shares carry one vote per share and carry the right to dividends.

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2003 $'000** | 2002 $'000 | **2003 $'000** | 2002 $'000 |
| **23. RESERVES** | | | | |
| **Reserves comprise:** | | | | |
| Asset revaluation reserve (i) | **159** | 159 | **159** | 159 |
| Foreign currency translation reserve (ii) | **30** | 19 | **-** | - |
| | **189** | 178 | **159** | 159 |

(i) *Asset Revaluation Reserve*
There was no movement in the asset revaluation reserve during the year. As reported in previous financial reports, this reserve is no longer available to absorb any future writedowns of property, plant and equipment.

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2003 $'000** | 2002 $'000 | **2003 $'000** | 2002 $'000 |
| (ii) *Foreign Currency Translation reserve* | | | | |
| Balance at beginning of financial year | **19** | 5 | **-** | - |
| Translation of foreign operations | **11** | 14 | **-** | - |
| Balance at end of financial year | **30** | 19 | **-** | - |

Exchange differences relating to foreign currency monetary items forming part of the net investment in a self-sustaining foreign operation and the translation of self-sustaining foreign controlled entities are brought to account by entries made directly to the foreign currency translation reserve, as described in Note 1(q).

Stokes (Australasia) Limited

# Notes *(continued)*

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2003 $'000** | 2002 $'000 | **2003 $'000** | 2002 $'000 |
| **24. ACCUMULATED LOSSES** | | | | |
| Balance at beginning of financial year | **(1,206)** | (958) | **(1,381)** | (1,052) |
| Net loss | **(1,386)** | (248) | **(1,541)** | (329) |
| | **(2,592)** | (1,206) | **(2,922)** | (1,381) |
| **25. OUTSIDE EQUITY INTERESTS** | | | | |
| Outside equity interests in controlled entity comprises: | | | | |
| Issued capital | **118** | 118 | | |
| Reserves | **13** | 8 | | |
| Retained profits | **116** | 49 | | |
| | **247** | 175 | | |
| **26. EARNINGS PER SHARE** | | | | |
| | **Cents** | Cents | | |
| Basic earnings per share (cents per share) | **(24.5)** | (4.4) | | |
| Diluted earnings per share (cents per share) | **(24.5)** | (4.4) | | |
| | **$'000** | $'000 | | |
| Earnings used in the calculation of the basic and diluted earnings per share | **(1,386)** | (248) | | |
| | **No.** | No. | | |
| The weighted average number of ordinary shares on issue used in the calculation of basic and diluted earnings per share | **5,651,250** | 5,651,250 | | |
| **27. DIVIDENDS** | | | | |
| No dividends were paid or proposed during the financial year. | | | | |
| Adjusted franking account balance | **-** | - | **-** | - |

# Notes *(continued)*

## 28. COMMITMENTS FOR EXPENDITURE

**Operating lease commitments:**

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2003 $'000** | 2002 $'000 | **2003 $'000** | 2002 $'000 |
| Non-cancellable operating leases | | | | |
| Property: (i) | | | | |
| Not later than one year | 317 | 377 | 263 | 325 |
| Later than one year but not later than two years | 115 | 327 | 97 | 275 |
| Later than two years but not later than five years | - | 114 | - | 97 |
| | 432 | 818 | 360 | 697 |
| Plant and equipment: (ii) | | | | |
| Not later than one year | 8 | 47 | - | 47 |
| Later than one year but not later than two years | 8 | - | - | - |
| Later than two years but not later than five years | 4 | - | - | - |
| | 20 | 47 | - | 47 |
| | 452 | 865 | 360 | 744 |

Leasing Arrangements

(i) The consolidated entity leases a number of premises throughout Australasia. The rental period of each lease agreement varies between two and five years with renewal options ranging from none to four 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.

(ii) Relates to a motor vehicle, is for a fixed period, at a fixed rate with no renewal options.

*Stokes (Australasia) Limited*

# Notes *(continued)*

## 29. CONTROLLED ENTITIES

| Name of Company | Country of Incorporation | Ownership % 2003 | Ownership % 2002 |
|---|---|---|---|
| Parent Entity-<br>Stokes (Australasia) Limited | Australia (Vic) | | |
| Controlled Entities – | | | |
| Stokes Investments Pty. Ltd.(i) | Australia (Vic) | **100** | 100 |
| Stokes (New Zealand) Limited (ii) | New Zealand | **68.9** | 68.9 |

(i) The controlled entity is classified as a small proprietary company and, in accordance with the Corporations Act 2001, is relieved from the requirements to prepare, audit and lodge a financial report.

(ii) This controlled entity carries out business in New Zealand and is audited by an associated firm of Deloitte Touche Tohmatsu Australia.

## 30. RELATED PARTY INFORMATION

(a) Directors equity holdings
The Directors who held office as a Director of Stokes (Australasia) Limited during the financial year, and their remuneration, is in Note 3.

At 30 June 2003, the Directors had a relevant interest in the following number of ordinary shares in Stokes (Australasia) Limited:

| NAME | BENEFICIALLY OWNED | OTHER |
|---|---|---|
| William R. Stokes | 336,924 | 340,750 (1)<br>182,020 (2) |
| Desmond G. S. Anderson | Nil | 1,075,533 (1) |
| Colin K. Day | 1,228 | Nil |
| Gordon B. Elkington | 80,122 | 59,845 (1) |

1. *Held by connected company, relative or family trust.*
2. *Held as trustee of decreased estate.*

During the financial year a further 19,685 ordinary shares were acquired by directors and their related parties in their personal capacity and not part of a remuneration scheme. (2002: nil).

During the financial year no ordinary shares were redeemed, exercised or bought back (2002: nil).

(b) Ownership interests in related parties

The parent entity's interest in controlled entities is shown in Note 29.

*Stokes (Australasia) Limited*

## Notes *(continued)*

### 30. RELATED PARTY INFORMATION (continued)

(c) Transactions with controlled entities

(i) During the financial year, a partly-owned controlled entity of Stokes (Australasia) Ltd purchased goods from the parent company on normal commercial terms and conditions totalling $302,345 (2002: $226,000).

(ii) During the 2003 year, an unsecured loan of $60,000 was made by a partly owned controlled entity to the parent entity. Partial repayment was made during the 2003 year and the amount outstanding as at 30 June 2003 is $30,000. The interest rate is 8.55%.

(iii) During the financial year a partly-owned controlled entity of Stokes (Australasia) Ltd sold goods to the parent company on normal commercial terms and conditions totalling $181,153 (2002: $60,792).

(iv) Amounts payable to controlled entities by the parent entity are disclosed in Notes 14 and 19.

(d) Transactions with directors and director-related entities:

(i) During the 2003 financial year, a motor vehicle was purchased by Mr William Stokes for $12,207 from Stokes (Australasia) Ltd on arms length terms.

(ii) During the 2003 financial year, a motor vehicle was purchased by Mr Paul Stokes for $8,000 from Stokes (Australasia) Ltd on arms length terms.

(e) Stokes (Australasia) Limited is the ultimate parent entity in the consolidated entity.

### 31. NOTES TO STATEMENT OF CASH FLOWS

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2003 $'000** | 2002 $'000 | **2003 $'000** | 2002 $'000 |
| (a) Reconciliation of Cash<br>For the purposes of the statement of cash flows, cash includes cash on hand and in banks, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows: | | | | |
| Cash on hand | 425 | 634 | 210 | 618 |

# Notes *(continued)*

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2003 $'000** | 2002 $'000 | **2003 $'000** | 2002 $'000 |
| **31. STATEMENT OF CASH FLOWS (continued)** | | | | |
| (b) Financing Facilities (i) (iv) | | | | |
| Available at the end of the financial year | | | | |
| Bank and other loans (ii) | **10,358** | 10,358 | **10,358** | 10,358 |
| Overdraft | **270** | 270 | **-** | - |
| | **10,628** | 10,628 | **10,358** | 10,358 |
| Facilities in use at the end of the financial year (i) | | | | |
| Bank and other loans | **5,728** | 5,391 | **5,728** | 5,391 |
| Overdraft | **-** | 260 | **-** | - |
| | **5,728** | 5,651 | **5,728** | 5,391 |

(i) During the financial year ended 30 June 2003 the company breached the lending covenants required by its financier. At the date of this report, the financier continues to provide financial facilities and has not exercised its rights as a result of these breaches (refer Note 1).

(ii) While there is a facility in place for $10,358,000, there are certain conditions outlined in the Facility Agreement which limit the use of this facility.

(iii) The controlled entity has provided an $8,000,000 guarantee for the parent entity's financing.

(iv) Facilities are all secured and subject to periodic review.

*Stokes (Australasia) Limited*

**Notes** *(continued)*

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2003 $'000** | 2002 $'000 | **2003 $'000** | 2002 $'000 |
| **31. STATEMENT OF CASH FLOWS (continued)** | | | | |
| (c) Reconciliation of net cash provided by operating activities to net loss after income tax. | | | | |
| Net loss after taxation | **(1,319)** | (211) | **(1,541)** | (329) |
| (Profit)/loss on disposal of non-current assets | **(16)** | 3 | **(10)** | 3 |
| Depreciation and amortisation of non-current assets | **972** | 982 | **907** | 920 |
| Amounts written off | | | | |
| Plant and equipment | **890** | - | **890** | - |
| Increase/(decrease) in tax balances | **(36)** | (2) | | - |
| Change in net assets and liabilities | | | | |
| (Increase)/decrease in assets: | | | | |
| current receivables | **244** | 471 | **195** | 526 |
| current inventories | **(208)** | 346 | **(182)** | 301 |
| other current assets | **11** | (140) | **17** | (140) |
| Increase/(decrease) in liabilities: | | | | |
| current trade payables | **(1,017)** | (12) | **(997)** | 4 |
| current accruals | **-** | (478) | **-** | (486) |
| provisions | **524** | (7) | **524** | - |
| other non current liabilities | **-** | 64 | **-** | 64 |
| Net cash provided by operating activities | **45** | 1,016 | **(197)** | 863 |

## 33. FINANCIAL INSTRUMENTS

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) Forward Foreign Exchange Contracts

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 (2002: Nil).

*Stokes (Australasia) Limited*

# **Notes** *(continued)*

## 33. FINANCIAL INSTRUMENTS (continued)

c) Interest Rate Risk

The following table details the consolidated entity's exposure to interest rate risk as at 30 June 2003:

| | Average interest rate | Variable interest rate | Fixed Interest Rate Maturity | | Non-interest bearing | Total |
|---|---|---|---|---|---|---|
| | | | Less than 1 year | 2 to 5 years | | |
| | % | $'000 | $'000 | $'000 | $'000 | $'000 |
| **2003** | | | | | | |
| **Financial Assets** | | | | | | |
| Cash | 3.75 | 425 | - | - | - | 425 |
| Current receivables | - | - | - | - | 4,969 | 4,969 |
| | | 425 | - | - | 4,969 | 5,394 |
| **Financial Liabilities** | | | | | | |
| Trade payables | - | - | - | - | 2,700 | 2,700 |
| Accruals | - | - | - | - | 790 | 790 |
| Bank loans | 8.08 | 5,728 | - | - | - | 5,728 |
| Finance lease liability | 8.5 | - | 150 | 126 | - | 276 |
| Employee benefits | - | - | - | - | 1,708 | 1,708 |
| Provision | - | - | - | - | 400 | 400 |
| | | 5,728 | 150 | 126 | 5,598 | 11,602 |

The following table details the consolidated entity's exposure to interest rate risk as at 30 June 2002:

| | Average interest rate | Variable interest rate | Less than 1 year | 2 to 5 years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|
| **2002** | | | | | | |
| **Financial Assets** | | | | | | |
| Cash | 3.4 | 634 | - | - | - | 634 |
| Current receivables | - | - | - | - | 5,213 | 5,213 |
| | | 634 | - | - | 5,213 | 5,847 |
| **Financial Liabilities** | | | | | | |
| Trade payables | - | - | - | - | 3,508 | 3,508 |
| Accruals | - | - | - | - | 999 | 999 |
| Bank loans | 8.3 | 5,391 | - | - | - | 5,391 |
| Finance lease liability | 8.5 | - | 329 | 158 | - | 487 |
| Employee benefits | - | - | - | - | 1,585 | 1,585 |
| | | 5,391 | 329 | 158 | 6,092 | 11,970 |

## Notes *(continued)*

### 33. FINANCIAL INSTRUMENTS (continued)

d) Credit Risk

Credit risk refers to the risk that a counterparty 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 measures credit risk on a fair value basis.
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.

e) Net Fair Value

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

### 34. REMUNERATION OF AUDITORS

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| | **$** | $ | **$** | $ |
| (a) Auditors of the Parent Entity | | | | |
| Auditing the financial report | **77,000** | 78,000 | **77,000** | 78,000 |
| Other services | **11,000** | 32,350 | **11,000** | 32,350 |
| | **88,000** | 110,350 | **88,000** | 110,350 |
| (b) Other Auditors | | | | |
| Auditing the financial report | **9,172** | 9,344 | - | - |
| Other services | **900** | - | - | - |
| | **10,072** | 9,344 | - | - |
| | **98,072** | 119,694 | **88,000** | 110,350 |

*Stokes (Australasia) Limited*

## Notes *(continued)*

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | **2003 $'000** | 2002 $'000 | **2003 $'000** | 2002 $'000 |
| **35. SALES OF ASSETS** | | | | |
| Sales of assets in the ordinary course of business have given rise to the following profits and losses: | | | | |
| Net Profits: | | | | |
| Plant and equipment | 16 | - | 10 | - |
| Net Losses: | | | | |
| Plant and equipment | - | 3 | - | 3 |

### 36. SUBSEQUENT EVENTS

As reported in prior financial reports, the company was unsuccessful in retaining the significant contract for Dishwasher Baskets. Sales from the existing contract will terminate during the first half of the 2004 financial year.

At 30 June 2003, the Ringwood property upon which the Synertec manufacturing site is located had been offered for a possible sale and leaseback transaction. The land at Ringwood has been sold for $2.5 million with the company entering a contract to lease the land and building for five years, with a further five year option.

# Notes *(continued)*

## 37. SEGMENT INFORMATION

### SEGMENT REVENUES

For management purposes, the consolidated entity is organised into two major operating divisions – manufacturing and merchandising. These divisions are the basis on which the consolidated entity reports its primary segment information. The principal products and services of each of these divisions are as follows:

Manufacturing - Represents products that are manufactured by the company. Major products consist of dishwasher baskets, heating elements and spare parts.

Merchandising - Represents the distribution of products that are sourced both locally and overseas. Major products consist of appliance spare parts; valve and camlocks; badges and medallions; electrical switches and controls.

| | External Sales | | Total | |
|---|---|---|---|---|
| | **2003 $'000** | 2002 $'000 | **2003 $'000** | 2002 $'000 |
| Manufactured | 18,716 | 16,125 | 18,716 | 16,125 |
| Merchandised | 15,108 | 17,809 | 15,108 | 17,809 |
| **Total of all segments** | 33,824 | 33,934 | 33,824 | 33,934 |
| Eliminations | (449) | (287) | (449) | (287) |
| Unallocated | 145 | 110 | 145 | 110 |
| **Consolidated** | 33,520 | 33,757 | 33,520 | 33,757 |

### SEGMENT RESULTS

| | **2003 $'000** | 2002 $'000 |
|---|---|---|
| Manufactured | 1,073 | 498 |
| Merchandising | 1,056 | 2,580 |
| **Total of all segments** | 2,129 | 3,078 |
| Eliminations | - | (5) |
| Unallocated | (3,337) | (3,219) |
| **Loss from ordinary activities before income tax expense** | (1,208) | (146) |
| Income tax expense relating to ordinary activities | (111) | (65) |
| Loss from ordinary activities after related income tax expense | (1,319) | (211) |
| Extraordinary items | - | - |
| **Net loss** | (1,319) | (211) |

# **Notes** *(continued)*

## 37. SEGMENT INFORMATION (continued)

### SEGMENT ASSETS AND LIABILITIES

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **2003 $'000** | 2002 $'000 | **2003 $'000** | 2002 $'000 |
| Manufactured | 8,621 | 9,311 | (2,714) | (3,278) |
| Merchandised | 6,089 | 6,830 | (2,804) | (2,622) |
| **Total of all segments** | 14,710 | 16,141 | (5,518) | (5,900) |
| Eliminations | (2,264) | (2,253 | 2,080 | 2,058 |
| Unallocated | 2,895 | 3,150 | (8,164) | (8,154) |
| **Consolidated** | 15,341 | 17,038 | (11,602) | (11,996) |

### OTHER SEGMENT INFORMATION

| | **Manufactured** | | **Merchandised** | |
|---|---|---|---|---|
| | **2003 $'000** | 2002 $'000 | **2003 $'000** | 2002 $'000 |
| Acquisition of segment assets | 275 | 116 | 223 | 128 |
| Depreciation and amortisation of segment assets | (481) | (418) | (388) | (462) |
| Recoverable amount write-down of segment assets | (797) | - | (93) | - |

# Notes *(continued)*

## 37. SEGMENT INFORMATION (continued)

### INFORMATION OF GEOGRAPHICAL SEGMENTS (SECONDARY SEGMENT)

| Geographical Segments | Revenue from External Customers | | Segment Assets | | Acquisition of Segment Assets | |
|---|---|---|---|---|---|---|
| | 2003 $'000 | 2002 $'000 | 2003 $'000 | 2002 $'000 | 2003 $'000 | 2002 $'000 |
| Australia | 30,617 | 31,154 | 14,514 | 16,147 | 458 | 235 |
| New Zealand | 2,903 | 2,603 | 827 | 891 | 40 | 9 |

Australia and New Zealand operate in both the Manufactured and Merchandised business segments.

## 38. ADDITIONAL COMPANY INFORMATION

Stokes (Australasia) Ltd is a listed public company, incorporated and operating in Australia and New Zealand.

Registered Office

24 Palmerston Road
Ringwood Victoria 3134
Tel: (03) 9845 8300

Principal Place of Business

24 Palmerston Road
Ringwood Victoria 3134
Tel: (03) 9845 8300

# FORMAL DECLARATIONS

**DIRECTORS' DECLARATION**
**FOR THE FINANCIAL YEAR ENDED**
**30 JUNE 2003**

The directors' declare that:

(a) The attached financial statements and notes thereto comply with Accounting Standards;

(b) The attached financial statements and notes thereto give a true and fair view of the financial position and performance of the company and the consolidated entity;

(c) In the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001; and

(d) In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable for the reasons outlined in Note 1.

Signed in accordance with a resolution of the directors made pursuant to Section 295 (5) of the Corporations Act 2001.

On behalf of the Directors

Desmond G. S. Anderson
Director

William R. Stokes
Director

Colin K. Day
Director

Gordon B. Elkington
Director

Dated at Ringwood Victoria 30 September 2003

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**Deloitte Touche Tohmatsu**

# INDEPENDENT AUDIT REPORT TO THE MEMBERS OF STOKES (AUSTRALASIA) LIMITED

## Scope

*The financial report and directors' responsibility*
The financial report comprises the statement of financial position, statement of financial performance, statement of cashflows, accompanying notes to the financial statements, and the directors' declaration for both Stokes (Australasia) Ltd (the company) and the consolidated entity, for the financial year ended 30 June 2003 as set out on pages 10 to 45. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

*Audit approach*
We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the Corporations Act 2001 and Accounting Standards and other mandatory professional reporting requirements in Australia so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

The audit opinion expressed in this report has been formed on the above basis.

## Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Deloitte
Touche
Tohmatsu

**Audit Opinion**

In our opinion, the financial report of Stokes (Australasia) Ltd is in accordance with:

(a) the Corporations Act 2001, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2003 and of their performance for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

**Inherent Uncertainty Regarding Continuation as a Going Concern**

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 1, there is significant uncertainty whether the company and consolidated entity will be able to continue as going concerns and therefore whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

S PELUSI
Partner
Chartered Accountants

Date: 30 September 2003

The liability of Deloitte Touche Tohmatsu is limited by, and to the extent of, the Accountants' Scheme under the Professional Standards Act 1994 (NSW).

*Stokes (Australasia) Limited*

# Comparative Figures for the years 1998 - 2002

| | **2003 $'000** | 2002 $'000 | 2001 $'000 | 2000 $'000 | 1999 $'000 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Operating profit/(loss) before income tax | **(1,208)** | (146) | (642) | (515) | 676 |
| Income tax | **111** | 65 | 37 | 12 | 18 |
| Operating profit/(loss) after income tax | **(1,319)** | (211) | (679) | (527) | 658 |
| Dividends per share | - | - | - | - | - |
| **Balance sheet** | | | | | |
| Current assets | **13,316** | 11,351 | 11,811 | 13,500 | 16,084 |
| *Less:* Current liabilities | **10,683** | 10,961 | 11,792 | 8,296 | 10,851 |
| | **2,633** | 390 | 19 | 5,204 | 5,233 |
| Fixed assets | **1,808** | 5,445 | 6,102 | 6,662 | 6,975 |
| Other non-current assets | **217** | 242 | 343 | 227 | 150 |
| | **4,658** | 6,077 | 6,464 | 12,093 | 12,358 |
| *Less:* Non-current liabilities | **919** | 1,035 | 1,231 | 6,251 | 6,043 |
| Total net assets | **3,739** | 5,042 | 5,233 | 5,842 | 6,315 |
| | | | | | |
| Issued capital | **5,895** | 5,895 | 5,895 | 5,895 | 5,895 |
| Reserves and retained profits/(losses) | **(2,403)** | (1,028) | (794) | (112) | 420 |
| Outside equity interests | **247** | 175 | 132 | 59 | - |
| Total share capital and reserves | **3,739** | 5,042 | 5,233 | 5,842 | 6,315 |

*Stokes (Australasia) Limited*

# Shareholder Analysis and Other Stock Exchange Requirements

**Statement of security holders as at 20 September 2003**

(a) Number of shareholders

| Distribution of shareholders by sizes of holdings | |
|---|---|
| 1 - 1,000 | 191 |
| 1,001 - 5,000 | 73 |
| 5,001 - 10,000 | 23 |
| 10,001 - 100,000 | 43 |
| 100,001 and over | 12 |
| Holding less than a marketable parcel | 222 |

Voting rights - Ordinary shares
The voting right attached to each ordinary share is one per share held.

(b) Twenty Largest Shareholders

| Ordinary Shareholders | Fully Paid Number | Percentage |
|---|---|---|
| Bairdos Pty Ltd | 1,075,533 | 19.03 |
| Gerald F. Pauley | 380,006 | 6.72 |
| William R. Stokes | 366,924 | 6.49 |
| Jaws Pty Ltd | 332,650 | 5.89 |
| Advanced Education Software Pty Ltd | 329,000 | 5.82 |
| Joanna M. Eccleston | 278,463 | 4.93 |
| Isabella F. Green | 250,786 | 4.44 |
| Paul W. Stokes | 195,364 | 3.46 |
| Estate of Margaret M. Stokes | 182,020 | 3.22 |
| Westpac Custodian Nominees Ltd | 162,506 | 2.88 |
| Dennis V. Hambleton | 141,771 | 2.51 |
| Evelin Investments Pty Ltd | 130,000 | 2.30 |
| AGO Pty Ltd | 98,474 | 1.74 |
| Winpar Holdings Ltd | 93,270 | 1.65 |
| Gordon B Elkington | 80,122 | 1.42 |
| HSBC Custody Nominees (Australia) Ltd | 64,000 | 1.13 |
| Hoff Company No 1 Pty Ltd | 63,350 | 1.12 |
| Milly Elkington | 59,845 | 1.06 |
| G F & J L Pauley | 55,460 | 0.98 |
| Ian P. Alexander | 50,000 | 0.88 |
| | 4,389,544 | 77.67 |

*Stokes (Australasia) Limited*

(c) Substantial shareholders as per substantial shareholder advices held at 20 September 2003

| Name | Number of Ordinary Shares to which Person Entitled |
|---|---|
| Bairdos Pty Ltd | 1,075,533 |
| William R. Stokes | 366,924 |
| Estate of Margaret M Stokes | 182,020 |
| Jennifer J. Stokes | 8,100 |
| Jaws Pty. Ltd | 332,650 |
| Gerald F. Pauley | 380,006 |
| Advanced Education Software Pty Ltd | 329,000 |

*Under the provisions of the Corporations Act 2001, a person may be entitled to shares in which he/she has no beneficial interest or which are held jointly with others. As more than one person may be entitled to the same shares, the above figures should not be aggregated.*

The ordinary shares of the Company are quoted on Australian Stock Exchange Limited.