Stokes

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ESTABLISHED 1856

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ANNOUNCEMENT

Following some years of losses it became clear to Stokes' Board towards the end of 2004 either that the company would require additional capital or that the company's costs would need to be considerably reduced if it were to be able continue to operate its existing business in the longer term.

On 28 October 2004 Stokes announced that it was entering into a Heads of Agreement with Baytree Investors Pty. Limited under which it was proposed to merge Stokes' business with certain manufacturing interests associated with Baytree, and also to raise approximately $243,000 via a placement of up to 840,000 shares at 29 cents.

Discussions with Baytree continued for a considerable period, but little progress was made. In the meantime additional funds became available to Stokes from internal sources, and these funds enabled Stokes to continue with a cost cutting program aimed at improving its cash flow and its overall financial position. The funds also allowed Stokes to reduce its current liabilities to its creditors and its bankers.

The principal sources of the additional funds were as follows:

- Loan from Stokes (New Zealand) Limited $250,000
- Loan from a director $150,000
- Dividend from Stokes (New Zealand) Limited $290,000
- Reduction in stocks and debtors $500,000

The cost cutting and down sizing program implemented during the financial year included the following measures:

- Closing the Sydney warehouse and sales office and transferring the sales manager and limited stock to the premises of Stokes' New South Wales distributor.
- Down sizing and relocating the Adelaide warehouse to smaller premises.
- Reducing overhead employees throughout the company.

The annualised savings resulting from overhead cost reductions are likely to exceed $2.7m per annum, with total cost reductions of approximately $6.0m per annum. In addition the company is now trading with positive cash flows.

Regular external reviews have been conducted by the company's bankers, who have noted the company's progress and have continued to give the company their support.

Discussions with Baytree have remained open, but no formal proposals have been made by Baytree, and no further steps have been taken with the proposed capital raising. The Board of Stokes now believes that there is little likelihood of any proposal being put to it by Baytree in the near future, and the Board is therefore continuing to conduct the company's business without regard to any possible merger.

The implementation of the cost reduction program will result in a loss for the year ended 30 June 2005. However because of the improvement in the company's cash position, there is no immediate need to raise funds. The Board is continuously monitoring the situation, and at some time in the future may consider raising additional capital by way of a share placement or a general issue of shares. An immediate announcement will be made if any decision is taken to increase the company's capital.

The company intends to apply to the A.S.X. to have the Stokes shares relisted after the release of the audited accounts for the year ending 30 June 2005.

Gordon B. Elkington
Secretary

10 August 2005