

# Prospectus

## Stokes Limited

### ACN 004 554 929

For a non-renounceable fully underwritten 1:4 Rights Issue of unsecured Convertible Notes, earning interest at 10% p.a. at an issue price of AU\$0.35 (35 cents) each to raise \$2.55 million.

Convertible into Shares or redeemable for cash in June 2017.

On Conversion of the Convertible Notes into Shares, each Noteholder will also be entitled to receive one additional \$0.35 Option for every 2 New Shares issued.

The Rights Issue is fully underwritten by JM Financial Group Limited.

***This Prospectus is important and requires your immediate attention. It should be read in its entirety. If you do not understand any part of this Prospectus, or you are in doubt as to how to deal with it, you should consult your accountant, stockbroker, solicitor or other professional adviser.***

# Timetable of Important Dates\*

|                                                                         |                   |
|-------------------------------------------------------------------------|-------------------|
| Prospectus lodged with ASIC and ASX                                     | 26 May 2014       |
| Record Date to determine entitlements to Convertible Notes              | 2 June 2014       |
| Prospectus and Entitlement & Acceptance Form despatched                 | 5 June 2014       |
| Last day for acceptances and Application money payment (“Closing Date”) | 17 June 2014      |
| Issue Date                                                              | 23 June 2014      |
| First Interest Payment Date                                             | 30 September 2014 |
| Maturity Date                                                           | 30 June 2017      |

*\*Shareholders are advised that this is an indicative timetable only. The Company (in consultation with the ASX, if necessary) reserves the right to change the dates without prior notice.*

## Important Notice

This Prospectus is dated 26 May 2014 and was lodged with ASIC on that date. Neither the ASIC nor ASX nor their respective officers take any responsibility for the contents of this Prospectus.

No Convertible Notes will be issued on the basis of this Prospectus later than 13 months after the date of this Prospectus.

This document is important and it should be read in its entirety. Your investment decision in this Rights Issue should be based upon the information contained in this Prospectus and the disclosures made to the market by the Company. If in doubt, you should consult your stockbroker, solicitor, accountant or other professional adviser without delay. No person named in this Prospectus, nor any other person guarantees the performance of the Company, the repayment of capital or the payment of a return on the Convertible Notes.

In making an investment decision, Applicants must rely on their own examination and assessment of the Offer, including the terms and conditions of the Offer and the merits and risks involved. Various risks may affect the future operating and financial performance of the Issuer and the value of an investment in the Company. Some of these risks are discussed in more detail in section 6 of this Prospectus.

### Transaction Specific Prospectus

This Prospectus is a transaction specific prospectus for an Offer of Convertible Notes which are convertible into continuously quoted securities (as defined in the Corporations Act) and has been prepared in accordance with ASIC Class Order 00/195. This Prospectus does not contain the same level of disclosure as an initial public offering prospectus. In providing information in this Prospectus, regard has been had to the fact that the Issuer is a disclosing entity for the purposes of the Corporations Act and certain matters may reasonably be expected to be known to investors and professional advisers whom potential investors may consult.

## **Responsibility Statement by Trustee**

The Trustee, Australian Executor Trustees Limited:

- (a) has not authorised or caused the issue, submission, dispatch or provision of this Prospectus and does not make any statement or purport to make any statement in this Prospectus or any statement on which a statement in this Prospectus is based;
- (b) nor any of its directors, employees, officers, affiliates, agents, advisors, intermediaries or Related Body Corporate (each a 'related person') assumes any responsibility for the accuracy or completeness of any information contained in this Prospectus;
- (c) to the maximum extent permitted by law expressly disclaims all liability in respect of, makes no representation or any statement regarding, and takes no responsibility for, any part of this Prospectus, or any statements in, or omissions from this Prospectus, other than the references to its name and the statement(s) and/or report(s) (if any) specified below and included in this Prospectus with its written consent;
- (d) has given, and has not, before the lodgement of this Prospectus with ASIC withdrawn, its written consent to be named in this Prospectus in the form and content in which it is named;
- (e) nor any related person makes any representation as to the truth and accuracy of the contents of this Prospectus;
- (f) has relied on the Company for the accuracy of the contents of this Prospectus; and
- (g) nor any related person makes any representation or warranty as to the performance of the Convertible Notes or the payment of interest or redemption of the Convertible Notes.

The Trustee, has no responsibility in respect of the Options issued under this Prospectus once the Options are issued.

## **Electronic Prospectus**

A copy of this Prospectus can be viewed/downloaded from the Company's website at [www.stokes.com.au](http://www.stokes.com.au).

The Corporations Act prohibits any person passing onto another person an Application Form for the Offer unless it is attached to a hard copy of this Prospectus or it accompanies the complete and unaltered electronic version of this Prospectus. During the Offer period, any person may obtain a hard copy of this Prospectus free of charge by contacting the Company.

## **Exposure Period**

The Corporations Act prohibits the acceptance by the Company of Applications for Convertible Notes in respect of the Offer during the seven day period after the date this Prospectus was lodged with ASIC. This period is referred to as 'Exposure Period' and ASIC may extend this period by a further seven days (that is up to 14 days in total).

The purpose of the exposure period is to enable materials in the Prospectus, which relate to the Offer, to be examined by market participants before the Offer may be accepted by investors. No Applications will be processed until after the end of the exposure period.

If you decide not to accept all or part of your Entitlement, that portion not accepted will lapse and revert to the Underwriter and you will receive no benefit for that portion. It is therefore important that if you decide to accept your Entitlement, you take action to accept your Entitlement by 17 June 2014.

Some words in this Prospectus have defined meanings. The glossary in section 8 of this Prospectus contains these meanings.

**An investment in the Convertible Notes may not be suitable for all shareholders. Shareholders should seek professional advice regarding this investment. The Convertible Notes are classified as “unsecured notes” for the purposes of section 283BH of the Corporations Act. .**

The Rights Issue is being offered in Australia and New Zealand only. This Prospectus does not constitute an offer in any other place in which, or to any person to whom, it would not be lawful to make such an offer.

# 1 Corporate Directory

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**Board of Directors**

Peter Jinks, Non-executive Chairman

Con Scrinis, Managing Director

Greg Jinks, Executive Director

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**Share Registry\***

Computershare Investor Services Pty Limited

452 Johnston Street

Abbotsford, Vic 3067

GPO Box 2975, Melbourne Vic 3001

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**Company Secretary**

Hemant Amin

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**Registered Office**

24 Palmerston Road, Ringwood Victoria 3134

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**Auditor\***

Pitcher Partners

Level 19, 15 William Street

Melbourne Vic 3000

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**ASX code**

SKS

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**Underwriter to the Rights issue\***

JM Financial Group Ltd

Level 8, 446 Collins Street

Melbourne Vic 3000

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**Trustee\***

Australian Executor Trustees Limited

Level 22, 207 Kent Street,

Sydney, NSW 2000

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**Solicitors**

Logie-Smith Lanyon

Level 12, 575 Bourke Street

Melbourne Vic 3000

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*\*These entities have not been involved in the preparation of any part of this Prospectus. Their names are included for information purposes only.*

## BRIEF INSTRUCTIONS

### What You May Do

The number of Convertible Notes to which you are entitled is shown on the accompanying Entitlement and Acceptance Form. You may:

- accept your Entitlement in full or in part; or
- allow the balance or whole of your Entitlement not accepted to lapse and revert to the Underwriter.

### If You Wish to Take Up All or Part of Your Entitlement

Complete the accompanying Entitlement and Acceptance Form in accordance with the instructions set out in the form. Forward your completed Entitlement and Acceptance Form together with your cheque, or make payment by BPAY® for the amount shown on the form or for such lesser amount as you wish to apply for, so as to reach the Company no later than 5:00pm (Sydney time) on 17 June 2014.

Cheques drawn for payment of the Convertible Notes must be in Australian currency drawn on an Australian bank, made payable to "Stokes Limited - Rights Issue" and crossed "Not Negotiable". Applicants must not forward cash. Receipts for payment will not be issued.

If you are paying by BPAY®, please make sure to use the specific Biller Code and unique Customer Reference Number (CRN) on your personalised Entitlement and Acceptance Form. If you receive more than one personalised Entitlement and Acceptance Form, please only use the CRN specific to the Entitlement on that Form. If you are paying by BPAY® payment, you do not need to mail the personalised Entitlement and Acceptance Form.

It is your responsibility to ensure that your BPAY® payment is received by the Company by no later than 5:00pm (Sydney time) on 17 June 2014 (subject to variation). You should be aware that your financial institution may implement earlier cut-off times with regards to electronic payment, and you should therefore take this into consideration when making payment.

### Entitlements Not Taken Up

If you decide not to accept your Entitlement, you do not need to take any action. Entitlements to Convertible Notes not accepted will lapse and revert to the Underwriter (subject to the Underwriting Agreement referred to in Section [5.2](#)).

## Letter from the Chairman

26 May 2014

Dear Shareholder

On behalf of the company I am pleased to invite you to participate in a 1 for 4 non-renounceable Rights Issue of unsecured Convertible Notes in the Company to raise approximately \$2,550,000 before costs.

The issue price for each Convertible Note is AU\$0.35 (35 cents).

The purpose of the Rights Issue is to provide working capital to allow the Company to expand its technology division, and also to reduce existing debt.

The Convertible Notes are a 3 year loan to the Company with a 3 year option to convert each Convertible Note to 1 New Share. The Convertible Notes bear interest at a fixed rate of 10% per annum payable quarterly in arrears. In addition, Noteholders will be entitled to receive 1 new Option for every 2 New Shares issued upon Conversion of Convertible Notes. The Options will be issued at no additional cost and will be exercisable at any time prior to 30 June 2019 at an Exercise Price of \$0.35 each.

If not converted by the Noteholder the Company is obligated to redeem (repay) the Convertible Notes in full on 30 June 2017.

The Prospectus provides full details of the Rights Issue and an overview of the Group's business and activities. I refer you also to the annual report of the Company for the financial year ended 30 June 2013 and to the half year results to 31 December 2013 announced to the market on 25 February 2014.

During the 2013 calendar year the Company successfully undertook and completed the restructuring of its Appliance Parts, Services and Manufacturing divisions. Recently Stokes also established a new Technologies Division to diversify revenue streams and expand Stokes' sales of innovative technologies & services.

The Stokes Technologies Division currently consists of Audiovisual and Lighting Solutions for the commercial and industrial markets.

The Company will exploit the extensive experience and history of its board and senior management team in successful company-building. Con Scrinis was the founder of Moonlighting Pty Ltd, a leading manufacturer and distributor of commercial and industrial lighting products in Australia. Greg and Peter Jinks were the founders of KLM Group Ltd, which was a leading electrical contractor that housed an audiovisual division. The expertise and industry relationships of the Stokes leadership team enable expansion into new and related high value added products.

The Stokes Technologies division now employs ten staff, has assembled a comprehensive range of products and with recent significant contract wins and a pipeline of projects underway is shaping as a future growth engine of Stokes.

ASX quotation of the Convertible Notes will be sought. Holders will have the option to convert their Convertible Notes to New Shares at \$0.35 per New Share at quarterly points in the next three years and therefore have an opportunity to benefit from any increase in the Share price above \$0.35.

We believe that the interest rate, ASX quotation and conversion features of these Notes will make them attractive to most Shareholders.

The Rights Issue closes on 17 June 2014 and any Entitlements not taken up will lapse and revert to the Underwriter.

All of the directors intend to take up their entitlements in full and encourage all eligible shareholders to participate in the Rights Issue.

Yours sincerely



**Peter Jinks, Non-executive Chairman**

## 2 Details of the rights issue

### 2.1 The Offer

Shareholders are offered the opportunity to subscribe for 1 Convertible Note for every 4 Shares (rounded up to the next whole number) registered in their name at 2 June 2014 (**Record Date**), at a price of AU\$0.35 (35 cents) per Convertible Note.

Each Convertible Note will be convertible into 1 New Share, at the election of the Noteholder, on a quarterly basis on or before 30 June 2017. No additional consideration is payable by the holder on conversion.

On Conversion, Noteholders will also be entitled to receive 1 Option for every 2 New Shares, at no additional cost. The Options will have an Exercise Price of AU\$0.35 (35 cents) each and an Expiry Date of 30 June 2019 and will entitle the holder to be issued 1 Share upon exercise of the Option and payment of the Exercise Price. The full terms and conditions of the Convertible Notes and the Options are set out in Annexure 1 and [Annexure 3](#) of this Prospectus respectively.

Application for quotation of the Convertible Notes has been made (and with respect to the Shares to be issued upon Conversion will be made) in accordance with the Listing Rules. The Options will not be quoted on the ASX.

The Rights Issue is fully underwritten by JM Financial Group Limited.

### 2.2 Application for Convertible Notes under the Rights Issue

Accompanying this Prospectus is an Entitlement and Acceptance Form detailing the maximum number of Convertible Notes you may purchase pursuant to this Rights Issue.

Shareholders can only apply for Convertible Notes on the accompanying Entitlement and Acceptance Form or by submitting a BPAY® payment in accordance with the instructions at the end of this Prospectus.

#### **If you do nothing**

If you do not take up your Entitlement, it will lapse at 5.00 pm (Sydney time) on the Closing Date.

### 2.3 Implications of Shareholders not taking up their entitlements under the Rights Issue

Existing Shareholders' interests will be diluted on conversion of Convertible Notes to New Shares if they do not take up their Entitlements under the Offer and elect not to convert their Notes to New Shares.

### 2.4 Application Money Held in Trust by the Company until Issue and Allotment

Until the Rights Issue concludes and the Convertible Notes are allotted under this Prospectus, acceptance money will be held on trust in a separate bank account which has been opened only for this purpose.

### 2.5 Purpose of the Rights Issue

The total number of Convertible Notes to be issued by the Company will be approximately 7,287,820 (subject to rounding). This will raise approximately AU\$2,550,000 before costs.

The purpose of the Rights Issue is to raise working capital for the Company and to reduce debt. It will also provide Shareholders with the opportunity to acquire further Shares in the Company. From the proceeds of the Rights Issue the Company will also pay the expenses associated with the Rights Issue.

The Directors believe that the funds raised from the Rights Issue will provide adequate funding for its current activities.

The Directors consider that the issue of Convertible Notes is the preferred method of funding long term and has the potential, if the Convertible Notes are converted, to supplement the equity base of the Company. The Rights Issue also gives all Shareholders an opportunity to participate in funding the Company's growth, with the potential to convert the Convertible Notes into an equity holding.

A more detailed analysis of the allocation of funds is set out in Section 4.

The intention to make this Rights Issue was announced to the ASX on 26 May 2014.

## 2.6 Key Features of the Convertible Notes

The rights and liabilities attached to the Convertible Notes are detailed in Annexure 1 and are also summarised in section 5. The following is a high level description only:

| Issuer                              | Stokes Limited                                                                                                                                                                                                                                                                                                                                                      |
|-------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Nature of instrument                | Unsecured Convertible Notes                                                                                                                                                                                                                                                                                                                                         |
| Issue size                          | Approximately \$2,550,000                                                                                                                                                                                                                                                                                                                                           |
| Number of Convertible Notes offered | Approximately 7,287,820                                                                                                                                                                                                                                                                                                                                             |
| Face value                          | AU\$0.35 (35 cents) per Convertible Note                                                                                                                                                                                                                                                                                                                            |
| Coupon rate                         | Fixed at 10% per annum                                                                                                                                                                                                                                                                                                                                              |
| Default Interest                    | 12.5% per annum                                                                                                                                                                                                                                                                                                                                                     |
| Interest payment terms              | Quarterly in arrears on the second Business Day after each of March 31, June 30, September 30 and December 31 each year until the Convertible Notes are Converted or redeemed.                                                                                                                                                                                      |
| First interest payment and period   | <p>The first interest payment will be paid to investors by the Company on or before the second Business Day following 30 September 2014 for the period from the date of allotment of the Convertible Note until 30 September 2014.</p> <p>Except for the first Interest Period, Interest payments cannot be deferred by the Company nor are they discretionary.</p> |
| Term                                | From Issue Date until 30 June 2017                                                                                                                                                                                                                                                                                                                                  |
| Maturity and redemption rights      | <p>The Convertible Notes must be repaid in full by the Company on 30 June 2017 unless converted earlier by the Noteholder.</p> <p>There are no early redemption rights</p>                                                                                                                                                                                          |
| Security                            | Unsecured                                                                                                                                                                                                                                                                                                                                                           |
| Ranking & Security                  | The Convertible Notes are unsecured and rank behind secured creditors, but equally with all unsecured creditors                                                                                                                                                                                                                                                     |

|                                           |                                                                                                                                                                                                                                                                                                                                                                                                 |
|-------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Conversion                                | <p>Convertible, at the option of the Noteholder on a quarterly basis from the date of issue until maturity), into Shares on the basis of 1 New Share for each Convertible Note Converted.</p> <p>The Company will also issue, at no additional cost, 1 Option, exercisable at any time prior to 30 June 2019 at an Exercise Price of AU\$0.35 (35 cents) each to the converting Noteholder.</p> |
| Listing                                   | The Convertible Notes and the New Shares to be issued on Conversion or exercise will be listed on the ASX. The Options will not be listed.                                                                                                                                                                                                                                                      |
| Underwriter                               | The Rights Issue is fully underwritten by JM Financial Group Limited                                                                                                                                                                                                                                                                                                                            |
| Convertible Notes Trust Deed              | The Convertible Notes will be issued pursuant to the Convertible Notes Trust Deed summarised in Section                                                                                                                                                                                                                                                                                         |
| Trustee                                   | The Trustee is Australian Executor Trustees Limited ABN 84 007 869 794                                                                                                                                                                                                                                                                                                                          |
| Participation rights                      | A Noteholder is not entitled to participate in a pro rata or bonus issue to all holders of Shares until the Notes have been Converted into New Shares.                                                                                                                                                                                                                                          |
| Voting                                    | A Convertible Note does not confer upon the Noteholder any right to vote at any general meeting of the Company                                                                                                                                                                                                                                                                                  |
| Adjustments for reorganisation of capital | In a consolidation or subdivision of capital of the Company, the number of Shares and Options to be issued on Conversion must be consolidated or subdivided in the manner required by the Listing Rules                                                                                                                                                                                         |

## 2.7 Summary of Risks

Potential investors should ensure they are aware of the risks involved in applying for Convertible Notes under the Rights Issue. The key risk factors of which investors should be aware are set out in section 6 of this Prospectus, and are also summarised in the table below.

These risks are those specific to the Company, the Convertible Notes and also of a general nature, along with those risks that are inherent in all investments in listed securities and not specifically referred to below, may affect the future value of the Convertible Notes and the Shares into which they may convert. Any investment should therefore be considered speculative. Investors should consider consulting their own professional advisers before deciding whether to apply for Convertible Notes under this Prospectus.

| <b>Risk</b>                         | <b>Short description</b>                                                                                                                                                                                                                                                                                                                                                | <b>Prospectus section reference</b> |
|-------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|
| <b>Profitability</b>                | Operational factors could impact cash flow projections and budgets and affect the profitability of Stokes Limited.                                                                                                                                                                                                                                                      | <a href="#">6.1(a)</a>              |
| <b>Notes are Unsecured</b>          | The payment by the Company of all principal and interest in respect of the Convertible Notes are not guaranteed and the Convertible Notes are not secured by any charge over any assets of the Company. In the event of the winding up of the Company, the Convertible Notes rank for payment equally with all other unsecured creditors and obligations of the Company | 6.1                                 |
| <b>Component sourcing</b>           | A change in existing relationships, quote arrangements, terms and conditions of overseas supply contracts or changes in overseas political and economic environments could affect the Company's ability to source components and have an adverse impact on the Company.                                                                                                 | <a href="#">6.1(b)</a>              |
| <b>Ongoing capital requirements</b> | Stokes Limited cannot be assured that additional funding and access to capital will be available at any time in the future. A future capital raising might result in dilution to existing Shareholders.                                                                                                                                                                 | <a href="#">6.1(c)</a>              |
| <b>Personnel</b>                    | The Company's inability to attract suitably qualified management staff, or the loss of current key personnel, may have an adverse material effect on the Company's ability to conduct its activities.                                                                                                                                                                   | <a href="#">6.1(d)</a>              |
| <b>Contracts</b>                    | A disruption to services or supply caused by the Company's (or its Subsidiaries') sub-contractors, or any non-performance or underperformance of a contract by the counterparty may have an adverse effect on the financial performance of the Company.                                                                                                                 | <a href="#">6.1(e)</a>              |
| <b>Equipment</b>                    | The operations of Stokes Limited could be adversely affected if essential equipment fails.                                                                                                                                                                                                                                                                              | <a href="#">6.1(f)</a>              |
| <b>Litigation</b>                   | While no litigation is currently on foot or threatened against the Company or any of its Subsidiaries, a litigious action may be threatened or brought against the Company in the future and such action or threat may adversely affect the Company's reputation and profitability.                                                                                     | <a href="#">6.1(g)</a>              |
| <b>Share Market</b>                 | The performance of the share market has in the past been, and may in the future be, affected by a number of matters outside Stokes Limited's control.                                                                                                                                                                                                                   | <a href="#">6.2</a>                 |

|                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |        |
|------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| <b>Insurance</b>             | While the Company maintains insurance substantially consistent with industry practice, there is no guarantee that its insurance will be available at economically viable premiums (if at all) or that in the event of a claim, the level of insurance held will be adequate such that a liability or other claim would not materially adversely affect the business.                                                                                                                                                                                                                                                                                    | 6.3    |
| <b>Market Price</b>          | There is no assurance that Stokes Limited's share price and the market price for the Convertible Notes will not fall below the issue price of 35 cents. The market price of the Company's Shares and the Convertible Notes could be impacted by a number of external factors.                                                                                                                                                                                                                                                                                                                                                                           | 6.4    |
| <b>Economic risks</b>        | External market factors such as political movements, stock market trends, changing customer preferences, interest and exchange rates, inflation levels, commodity prices, environmental impacts and attitudes, international competition, industrial disruption, and taxation, legislation and regulatory changes could all adversely impact the Company's operating costs, profit margins and Share price. War or terrorist attacks could result in a decline in economic conditions which might materially adversely affect the business. Fluctuations in international currency exchange rates may adversely affect the Company and its share price. | 6.5    |
| <b>Interest payment risk</b> | The Company expects to make interest payments using available cash balances and cash flow from operations. The Company's ability to generate cash flows from its operations will depend substantially on the performance of its management team and its existing businesses.                                                                                                                                                                                                                                                                                                                                                                            | 6.6(a) |
| <b>Liquidity risk</b>        | The market for Convertible Notes may be less liquid than the market for Ordinary Shares. There can be no assurance that investors will be able to buy or sell Convertible Notes on ASX.                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | 6.6(c) |
| <b>Redemption Risk</b>       | The Company expects to be able to redeem the Convertible Notes using the proceeds from future debt or equity raisings or cash flows from operations (or both). There is a risk that the Company would be unable to procure or raise sufficient cash resources from future debt or equity raisings or sale of investments and would, in that case, have insufficient cash flows to redeem the Convertible Notes at the Maturity Date                                                                                                                                                                                                                     | 6.6(d) |

|                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |        |
|-------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| <b>Dilution risk</b>    | The Company may undertake additional offerings of securities in the future. The increase in the number of issued Ordinary Shares or securities convertible into Ordinary Shares and the possibility of sales of such securities may depress the price of Ordinary Shares already on issue and of the Convertible Notes. In addition, as a result of the issue of Ordinary Shares, the voting power and proportionate economic interest of the Company's existing Shareholders (and, indirectly, of holders of the Convertible Notes) will be diluted | 6.6(f) |
| <b>Enforcement risk</b> | <p>The Convertible Notes Trust Deed provides that rights under the Convertible Notes and the Convertible Notes Trust Deed may generally only be enforced by the Trustee and not by the Noteholders directly, except where the Trustee has failed to take action within a reasonable period of time in which case the Noteholder is entitled to institute proceedings in its own name, but not in the name of the Trustee.</p> <p>The Trustee has no responsibility in relation to the Options once issued following Conversion.</p>                  | 6.6(g) |

## 2.8 Rights Attaching to New Shares

New Shares will rank equally with and have the same rights and liabilities as, existing fully paid Shares. The rights attaching to Shares are:

- (a) set out in the Company's Constitution (which may be examined from 9:00 am to 5:00pm during normal Business Days at the registered office of the Company); and
- (b) in certain circumstances, regulated by the Corporations Act, the ASX Listing Rules and the general law.

## 2.9 Rights Attaching to Options

Options to which Noteholders are entitled to be issued on conversion of the Convertible Notes will have the rights set out in the Terms and Conditions of Options Issue as set out in Annexure 3. The rights attaching to Options can be summarised as follows:

| <b>Issuer</b>        | <b>Stokes Limited</b>                                                                                                               |
|----------------------|-------------------------------------------------------------------------------------------------------------------------------------|
| Nature of instrument | Option over Shares to be issued on a 1:2 basis upon conversion of Convertible Notes                                                 |
| Exercise Price       | AU\$0.35 (35 cents) per Option                                                                                                      |
| Entitlement          | Each Option entitles the holder to be issued 1 Share upon exercise of the Option and payment of the Exercise Price of AU\$0.35 each |
| Expiry Date          | 5.00pm on 30 June 2019                                                                                                              |
| Exercise Period      | Any time after the Issue Date and prior to the Expiry Date                                                                          |

| <b>Issuer</b>                             | <b>Stokes Limited</b>                    |
|-------------------------------------------|------------------------------------------|
| Unlisted                                  | The Options will not be quoted on ASX.   |
| Adjustments for reorganisation of capital | In accordance with the ASX Listing Rules |

## **2.10 Trustee**

The Trustee has not had any involvement in the preparation of any part of this Prospectus (other than particular references to the Trustee and the Convertible Notes Trust Deed). The Trustee expressly disclaims and takes no responsibility for any other part of this Prospectus. It makes no statement in this Prospectus and has not authorised or caused the issue of it. The Trustee does not guarantee the performance of the Company, the success of the Convertible Notes or payment of any interest or other return on the Convertible Notes.

The Trustee has no responsibility in respect of the Options issued under this Prospectus once they have been issued.

## **2.11 Electronic prospectus**

A copy of this Prospectus can be downloaded from the website of the Company at [www.stokes.com.au](http://www.stokes.com.au). Any person accessing the electronic version of this Prospectus for the purpose of making an investment in the Company must be an Australian resident and must only access the Prospectus from within Australia.

The Corporations Act prohibits any person passing onto another person an Application Form unless it is attached to a hard copy of this Prospectus or it accompanies the complete and unaltered version of this Prospectus. Any person may obtain a hard copy of this Prospectus free of charge by contacting the Company.

## **2.12 Exposure Period**

This Prospectus will be circulated during the Exposure Period. The purpose of the Exposure Period is to enable this Prospectus to be examined by market participants prior to the raising of funds. Potential investors should be aware that this examination may result in the identification of deficiencies in the Prospectus and, in those circumstances, any application that has been received may need to be dealt with in accordance with Section 724 of the Corporations Act.

Acceptances and applications for Convertible Notes under this Prospectus will not be accepted by the Company until after the expiry of the Exposure Period. No preference will be conferred on persons who lodge acceptances and applications prior to the expiry of the Exposure Period.

## **2.13 Role of the Underwriter**

Neither the Underwriter nor any of its related bodies corporate, directors, officers or associates, in any way stands behind the capital value of the Company or gives any guarantee or provides any assurance as to the performance of an investment in or the underlying assets of the Company, the repayment of the face value of the Convertible Notes, the payment of interest on the Convertible Notes, or, in respect of any Shares or Options issued on conversion of the Convertible Notes, any repayment of capital or any particular rate of capital or income return.

## **2.14 Non-resident Shareholders**

This Rights Issue is only being made available to all Shareholders resident in Australia and New Zealand. The Offers of Convertible Notes under this Prospectus will not be made to the remaining Shareholders, as the Directors have determined that it is not economic or reasonable for the Company to offer the Rights Issue in those jurisdictions due to the small

number of Convertible Notes that would be offered pursuant to this Rights Issue to Shareholders in those jurisdictions, the relatively small amount of capital that could be raised even if the Rights Issue was fully subscribed by those Shareholders and the significant cost of complying with the overseas legal and governmental requirements and other regulatory formalities which may need to be observed to enable the Rights Issue to be extended to those Shareholders.

#### **2.15 Closing Date**

Acceptances must be received before the close of the Rights Issue offer period at 5:00pm (Sydney time) on 17 June 2014.

#### **2.16 Quotation**

The Company has applied to have the Convertible Notes quoted on the ASX.

If the ASX does not grant permission for the Convertible Notes to be quoted within 3 months from the date of this Prospectus, then the Convertible Notes will not be issued (unless ASIC grants an exemption). If no issue is made all money paid on Application will be returned to Applicants as soon as practicable.

Interest earned on the Application money will be for the benefit of the Company and will be retained by the Company even if the issue of Convertible Notes does not take place.

#### **2.17 Date of Issue**

Convertible Notes will not be issued until the ASX has granted permission for the Convertible Notes to be quoted (unless ASIC has granted an exemption permitting the issue) and the proceeds of the Rights Issue have been received by the Company.

The Convertible Notes are expected to be allotted on, and holding statements issued, by the date described in the Timetable. All Application money will be held in trust for Applicants until the Convertible Notes are issued or, if there is no issue, until the money is returned to Applicants. A trust account will be established and funds deposited will be kept in trust on behalf of each Applicant.

#### **2.18 Market Prices of Shares**

The lowest and highest closing market sale prices of Shares on the ASX during the 3 months immediately preceding the date of announcement of the Rights Issue, being 23 May 2014 were AU\$0.32 and AU\$0.35 respectively.

The last sale price for Shares on the ASX prior to the date of this Prospectus was AU\$0.35 on 23 May 2014.

#### **2.19 Payment**

If you are a Shareholder who elects to participate in the Rights Issue and are paying by cheque or bank draft, the completed Entitlement and Acceptance Form must be accompanied by payment in full of AU\$0.35 (35 cents) per Convertible Note subscribed for. Payments will only be accepted in Australian currency. Refer to the instructions at the end of this Prospectus for further details of payment requirements.

Shareholders who elect to participate in the Rights Issue who wish to pay by BPAY® need not complete or return the Entitlement and Acceptance Form. Instructions for BPAY® applications are set out at the end of this Prospectus.

## 2.20 Issue is Underwritten

This Rights Issue is being fully underwritten by the Underwriter. Details of the Underwriting Agreement are contained in Section 5.2. Pursuant to the Underwriting Agreement, if upon expiry of the period for acceptances under the Rights Issue all of the Shareholders who are entitled to participate in the Rights Issue have not taken up all of their Entitlements to subscribe for Convertible Notes under this Rights Issue, the Underwriter (or its nominee) is obliged to subscribe for the shortfall on the same terms as offered to the Shareholders under this Rights Issue.

Accordingly, subject to the terms of the Underwriting Agreement and quotation of the Convertible Notes on ASX, all 7,287,820 Convertible Notes (subject to rounding up for fractional entitlements) offered pursuant to this Rights Issue will ultimately be issued by the Company.

The \$2,550,000 (approximately) raised before costs will, in the Board's opinion, be sufficient to satisfy the immediate objectives of the Company.

## 2.21 No Minimum Subscription

This Rights Issue has no minimum subscription. As the Rights Issue is fully underwritten, subject to the terms of the Underwriting Agreement, the Company will issue all 7,287,820 Convertible Notes (subject to rounding up for fractional entitlements) which are the subject of this Rights Issue.

## 2.22 Taxation

The tax treatment and consequences of this Rights Issue will vary depending on the particular circumstances of each Applicant. The Company accepts no liability or responsibility in relation to any taxation consequences connected to the Convertible Notes. Therefore regarding the appropriate tax treatment that applies to this Rights Issue, it is the responsibility of any Applicant who makes an Application to satisfy themselves by consulting their own professional tax advisors prior to investing in Convertible Notes.

## 2.23 Action by Shareholders

The Entitlement to Convertible Notes which is offered to existing Shareholders under this Prospectus is non-renounceable. Shareholders may accept all of their Entitlement, or accept part of their Entitlement and allow the balance (if any) not accepted to lapse and revert to the Underwriter. Shareholders are not entitled to renounce (sell) any of their Entitlement. Convertible Notes issued to Shareholders accepting all or part of their Entitlement may be traded on ASX.

**Important: If you do nothing you will lose your Entitlement and receive nothing for your rights. Entitlements to Convertible Notes not accepted by Investors will lapse and revert to the Underwriter.**

If you are in any doubt as to what you should do, you should contact your accountant, stockbroker, solicitor or other professional adviser.

**You should refer to the instructions regarding the various courses of action on how to deal with your Entitlement and instructions for completion of the accompanying Entitlement and Acceptance Form at the end of this Prospectus.**

Uncertificated holdings will be entered on the CHESS register as soon as practicable after the close of the Rights Issue. Notification of issue and allotment of the Convertible Notes will be posted to Shareholders at their address appearing in the Share register.

## **2.24 Costs of the Rights Issue**

The costs of the Rights Issue are estimated at approximately \$206,000. This is inclusive of the 5% underwriting fee payable to the Underwriter. Further details of these fees and costs are set out in Section [4.1](#).

## **2.25 CHESS**

Stokes will apply to the ASX for the Convertible Notes to participate in the Securities Clearing House Electronic Subregister System known as CHESS. CHESS is operated by ASX Settlement Pty Ltd in accordance with the ASX Listing Rules and the ASX Settlement Operating Rules. After allotment of Convertible Notes, Noteholders who are issuer sponsored holders will receive an issuer sponsored statement and those who are CHESS holders will receive an allotment advice.

The CHESS advice will set out the number of Convertible Notes allotted to each Noteholder pursuant to this Prospectus and advise holders of their holder identification number. Further statements will be provided to Noteholders which reflect any changes in their Convertible Note holding in the Company during a particular month.

## **2.26 Representations by Acceptance**

By completing and returning your personalised Entitlement and Acceptance Form with Application Moneys or making a payment by BPAY®, you will be deemed to have represented that you are a Shareholder who is entitled to participate in the Rights Issue. You will also be deemed to have represented on behalf of each person on whose account you are acting that:

- (a) you are not in the United States and are neither a U.S. Person nor acting for the account or benefit of a U.S. Person;
- (b) you acknowledge that the Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended, or the securities laws of any state or other jurisdiction in the United States, or in any other jurisdiction outside Australia or New Zealand and accordingly, the Notes (and any Additional Notes) may not be offered, sold or otherwise transferred except in accordance with an available exemption from, or in a transaction not subject to the registration requirements of the Securities Act and any other applicable securities laws; and
- (c) you have not and will not send any materials relating to the Offer to any person in the United States, who is or who is acting for the account or benefit of, a U.S. Person.

# **3 Stokes Limited**

## **3.1 Background**

Stokes Limited was established over 170 years ago by founder Thomas Stokes, who started the business as a Diesinker and Electroplater. The Company developed significantly during the 1950s and began manufacturing components for the automotive and domestic appliance industries. It has now grown into one of Australia's leading suppliers in the industry. Stokes Limited operates in Australia, Asia and the Pacific and has a strong reputation of engineering excellence and innovative design. The Company was listed on ASX in 1962.

The Company operates through the following divisions:

- Appliance Parts and Service;
- Technologies; and
- Industrial.

Stokes Appliance Parts and Service division is a leading independent distributor of appliance spare parts and appliance servicing. Stokes Industrial division is a major manufacturer of electrical elements, and Stokes Technologies division distributes innovative LED lighting products and audiovisual products and solutions.

### **3.2 Recent Restructuring**

While the Company has endured several years of declining revenues and mounting losses, the Company has undertaken a transformation over the past two years driven by changes in its major shareholders and board.

A complete internal review resulted in the implementation of a comprehensive re-structure program supported by a fully underwritten \$2.34 million capital raising in December 2012. The Company went on to achieve a number of major milestones and completed the transformation in December 2013, on time and on budget.

Specific achievements include:

- The acquisition of Grimwood appliance parts, a competitor, which had the effects of consolidating the electric elements manufacturing industry and disposing of the non-core badges & medallions business;
- The acquisition of Aussie Whitegoods Rescue, an appliance services business;
- The acquisition of ANZ appliance parts and Janda Electrics; and
- Implementation of a new LED lighting and audiovisual products range, which have started generating sales revenue with recent contract wins.

Fixed costs have also been reduced by 30% through redundancies and cost reductions, and the Company's enterprise resource planning systems have been upgraded along with the launch of a new e-commerce website. Stokes Limited has consolidated warehousing facilities and installed an experienced and motivated senior management team.

These achievements have increased and diversified Stokes Limited's revenue streams, and the Board is confident that as a result the Company will return to profitability. The Board expects the full benefits of the restructuring program to continue to flow throughout the 2014 calendar year.

### **3.3 Current Business Activities and Prospects**

Products and Services provided by the Company include:

- Audiovisual products;
- Audiovisual solutions;
- Lighting and electrical;
- Appliance parts;
- Appliance servicing; and
- Industrial heating.

The Company has recently achieved significant contract wins with a lighting order in excess of \$1,000,000 dollars and audiovisual orders in excess of \$200,000 from two prominent national and international retail chains.

These orders have been funded by additional trade and debtor finance facilities of approximately \$600,000 provided by the Company's financier, Bendigo Bank. These orders are expected to be completed and the Company paid by 30 June 2014, at which time the Company's debt facilities will be restored to their normalised operating limits of approximately \$1.2 million.

## 4 Effect of the rights issue on Stokes Limited

### 4.1 Allocation of Company Funds

The following table shows the proposed allocation of the funds to be raised by the Company pursuant to the Rights Issue. The estimates are based on this Rights Issue being fully subscribed (as it is fully underwritten).

|                                                                                                                   |                    |
|-------------------------------------------------------------------------------------------------------------------|--------------------|
| Underwriting                                                                                                      | \$127,000          |
| Costs of the Rights Issue (legal fees, printing, ASIC lodging fees, ASX listing fees) and Trustee fees for year 1 | \$79,000           |
| Reduction of Debt                                                                                                 | \$770,500          |
| Working Capital                                                                                                   | \$1,573,500        |
| <b>Total</b>                                                                                                      | <b>\$2,550,000</b> |

### 4.2 Effect on Capital Structure

The issued Securities in the Company both pre and post the Rights Issue (based on the Rights Issue being fully underwritten) are as follows:

|                                                                                                                                                          | Ordinary shares         | Convertible Notes | Options   |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|-------------------|-----------|
| Securities on issue as at the date of this Prospectus                                                                                                    | 29,151,281              | -                 | -         |
| Securities offered pursuant to this Prospectus                                                                                                           | -                       | 7,287,820         |           |
| Total Securities on issue immediately after completion of Rights Issue                                                                                   | 29,151,281              | 7,287,820         | -         |
| Total Securities after completion of Rights Issue and Conversion of all Convertible Notes on or prior to 30 June 2017                                    | 36,439,101 <sup>1</sup> | -                 | 3,643,910 |
| Total Securities after completion of issue, Conversion of all Convertible Notes prior to 30 June 2017, and exercise of all Options prior to 30 June 2019 | 40,083,011              | -                 | -         |

<sup>1</sup> On the basis that all Convertible Notes issued pursuant to this Prospectus are Converted prior to 30 June 2017.

#### **4.3 Effect of the Rights Issue**

The principal effects of the Rights Issue on the capital structure of the Company are:

- (a) the Company's cash funds will increase by approximately \$2,550,000 less expenses of the Rights Issue (including the underwriting fees), which are estimated at approximately \$206,000 in total;
- (b) the total number of Shares on issue will remain the same prior to any conversion of any Convertible Notes; and
- (c) the total number of issued Shares will increase by approximately 10,931,730, assuming all Convertible Notes and Options to be issued are converted/exercised and will represent approximately 28% of the expanded share capital of the Company.

#### **4.4 No impact on control**

The issue of New Shares under the Offer is not expected to have a material effect on the control of the Company.

The Underwriter has agreed to sub-underwrite the Offer. See Section 5.2 for details regarding the anticipated maximum increase in voting power of the Underwriter as a result of the Offer.

### **Financial information**

#### **4.5 Pro Forma Statement of Financial Position**

Set out below is the audited consolidated Statement of Financial Position of the Company as at 30 June 2013, the consolidated Statement of Financial Position of the company as at 31 December 2013 as per the reviewed half year report and a pro forma consolidated Statement of Financial Position of the Company following the successful completion of the Rights Issue as if the Rights Issue had been completed on 31 December 2013. It has been prepared in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards and other mandatory professional reporting requirements in Australia however it is presented in an abbreviated form and does not contain all of the disclosures required by Australian Accounting Standards in an annual financial report prepared in accordance with the Corporations Act.

The pro forma Statement of Financial Position as at 31 December 2013 has been adjusted and prepared from the Statement of Financial Position adjusted for the following:

- a full subscription for Convertible Notes by Shareholders to whom this Rights Issue is being made (and the Underwriter with respect to any shortfall) in an amount of \$2.55M before costs;
- net proceeds, after costs, from the Rights issue of \$2,344,000; and
- as if the Rights Issue had been completed as at 31 December 2013.

The accounting policies adopted in preparation of the pro-forma Statement of Financial Position are consistent with the policies adopted and as described in the Company's Statement of Financial Position for the half year ended 31 December 2013.

| <b><u>Details</u></b>                | <b><u>Actual 30-<br/>Jun-13</u></b> | <b><u>Actual 31-<br/>Dec-13</u></b> | <b><u>Pro forma<br/>adjustment for<br/>\$2.55M raising</u></b> | <b><u>Pro forma (post issue<br/>of Convertible Notes</u></b> |
|--------------------------------------|-------------------------------------|-------------------------------------|----------------------------------------------------------------|--------------------------------------------------------------|
| <b>Current Assets</b>                |                                     |                                     |                                                                |                                                              |
| Cash and cash equivalents            | 732,663                             | 643,740                             | 1,573,500                                                      | 2,217,240                                                    |
| Trade and other Receivables          | 1,789,562                           | 1,962,027                           |                                                                | 1,962,027                                                    |
| Inventories                          | 1,792,222                           | 2,385,646                           |                                                                | 2,385,646                                                    |
| Other                                | 61,037                              | 29,936                              |                                                                | 29,936                                                       |
| <b>Total Current Assets</b>          | <b>4,375,484</b>                    | <b>5,021,349</b>                    | <b>1,573,500</b>                                               | <b>6,594,849</b>                                             |
| <b>Non-Current Assets</b>            |                                     |                                     |                                                                |                                                              |
| Plant and equipment                  | 231,664                             | 378,666                             |                                                                | 378,666                                                      |
| Goodwill                             | 199,486                             | 199,486                             |                                                                | 199,486                                                      |
| Deferred Expenses                    |                                     |                                     | 206,000                                                        | 206,000                                                      |
| <b>Total Non-Current Assets</b>      | <b>431,150</b>                      | <b>578,152</b>                      | <b>206,000</b>                                                 | <b>784,152</b>                                               |
| <b>Total Assets</b>                  | <b>4,806,634</b>                    | <b>5,599,501</b>                    | <b>1,779,500</b>                                               | <b>7,379,001</b>                                             |
| <b>Current Liabilities</b>           |                                     |                                     |                                                                |                                                              |
| Trade and other Payables             | 1,520,352                           | 1,584,618                           |                                                                | 1,584,618                                                    |
| Financial Liabilities                | 1,261,984                           | 770,500                             | (770,500)                                                      | -                                                            |
| Provision for restructuring          | 575,105                             | -                                   |                                                                | -                                                            |
| Provisions - Employee Entitlement    | 721,556                             | 638,073                             |                                                                | 638,073                                                      |
| <b>Total Current Liabilities</b>     | <b>4,078,997</b>                    | <b>2,993,191</b>                    | <b>(770,500)</b>                                               | <b>2,222,691</b>                                             |
| <b>Non-Current Liabilities</b>       |                                     |                                     |                                                                |                                                              |
| Convertible Notes                    |                                     |                                     | 2,550,000                                                      | 2,550,000                                                    |
| Provisions - Employee Entitlement    | 110,805                             | 70,975                              |                                                                | 70,975                                                       |
| <b>Total Non-Current Liabilities</b> | <b>110,805</b>                      | <b>70,975</b>                       | <b>2,550,000</b>                                               | <b>2,620,975</b>                                             |
| <b>Total Liabilities</b>             | <b>4,189,802</b>                    | <b>3,064,166</b>                    | <b>1,779,500</b>                                               | <b>4,843,666</b>                                             |
| <b>Net Assets</b>                    | <b>616,832</b>                      | <b>2,535,335</b>                    | <b>-</b>                                                       | <b>2,535,335</b>                                             |

#### 4.6 Notes to the Pro Forma Statement of Financial Position

*The cash position of the Company shown in the above pro forma Statement of Financial Position is 643,740 increasing to \$2,217,240 after the effect of the Rights Issue and payment of associated costs. It is important to note that the actual cash position of the Company as at 31 March was \$328,901. This means that a 31 March 2014 pro forma cash position after the rights Issue and payment of associated costs would have been \$1,902,401.*

*Between 31 December 2013 and 31 March 2014 the Company has extended its debt facilities with Bendigo Bank, with a combination of trade and debtor finance, to fund large orders in Stokes' Technologies division and additional working capital. The Company's debt with Bendigo bank at 31 March 2014 was \$1,225,978 under the debtor finance facility and \$474,600 under the trade finance facility. This means that a 31 March 2014 pro forma debt position after the Rights Issue and payment of associated costs would have been \$951,156.*

## 5 Significant documents

### 5.1 Convertible Notes Trust Deed

The Convertible Notes Trust Deed dated 26 May 2014 between the Company and the Trustee sets out both the terms and conditions on which the Convertible Notes are to be issued and also the covenants given by the Company which are required by the Corporations Act and the Convertible Notes Trust Deed.

The Conditions of Issue of the Convertible Notes are reproduced in Annexure 1 to this Prospectus.

The Conditions of Issue and the Convertible Notes Trust Deed are binding on each of the Company, the Trustee and the Noteholders.

Under the Convertible Notes Trust Deed, the Trustee holds in trust for the benefit of the Noteholders the following:

- (a) the right to enforce the Company's duty to repay the money owing to the Noteholders under the Notes; and
- (b) the right to enforce any other obligations of the Company under the Conditions of Issue, the Convertible Notes Trust Deed and the Corporations Act.

***The payment by the Company of all principal and interest in respect of the Convertible Notes and all other money payable under the Convertible Notes Trust Deed are not guaranteed and the Convertible Notes are not secured by any charge over any assets of the Group. In the event of the winding up of the Company, the Convertible Notes rank for payment equally with all other unsecured creditors and obligations of the Company but ahead of shareholders.***

#### ***Company undertakings***

In addition to the Company's obligation to pay interest on the Convertible Notes quarterly in arrears and to redeem unconverted Convertible Notes on the Maturity Date of 30 June 2017 in accordance with the Conditions of Issue and the Convertible Notes Trust Deed, the Company must:

- (a) carry on and conduct its business in a proper and efficient manner;
- (b) make available its financial and other records to the Trustee and any registered company auditor appointed by the Trustee;
- (c) give to the Trustee such information as the Trustee requires with respect to all matters relating to the financial or other records of the Company;
- (d) convene a meeting of Noteholders on application of Noteholders holding not less than 10% in nominal value of the issued Convertible Notes to:
  - (i) consider the financial statements that were laid before the last precedent Annual General Meeting of the Company; and
  - (ii) give the Trustee directions in relation to the exercise of the Trustee's powers;
- (e) execute and do all such assurances and things as shall be required for giving effect to the Convertible Notes Trust Deed and other related transaction documents and conferring the full benefit of the Convertible Notes Trust Deed and other related transaction documents upon Noteholders and the Trustee;

- (f) keep or cause to be kept proper books of account and enter into those books full particulars of all dealings and transactions in relation to its business;
- (g) duly comply with:
  - (i) the requirements of Chapter 2L of the Corporations Act; and
  - (ii) all other statutory requirements and requirements of the Listing Rules and the ASX Settlement Operating Rules with respect to the filing of reports, accounts and statements and the furnishing of reports, accounts and statements to the Trustee (or other bodies), the keeping open of registers for inspection and all other like matters;
- (h) promptly give to the Trustee any information which it may reasonably require for the purpose of the Convertible Notes Trust Deed and compliance with all laws including the Corporations Act;
- (i) advise the Trustee in writing of any default and particulars of such default by the Company or any Subsidiary of the Company under any encumbrance over all or any part of its assets or undertakings;
- (j) duly and punctually observe fulfil and perform and comply with all the covenants terms conditions and obligations imposed upon it by and notify the Trustee in writing immediately on becoming aware that any such covenants terms conditions and obligations cannot be fulfilled or performed;
- (k) notify the Trustee:
  - (i) promptly if any security interest is created over the Company's assets and advise the Trustee of the nature of such security interest and any other particulars required to be disclosed to the Trustee pursuant to clause 283BE of the Corporations Act;
  - (ii) as soon as it becomes aware that it holds any of its assets as the trustee of any trust and, if requested by the Trustee, specify which assets are subject to that trust;
- (l) provide the Trustee (at the Company's own cost) as and when reasonably requested by the Trustee such information reasonably required by the Trustee for the purpose of ensuring that the Trustee can comply with Chapter 2L of the Corporations Act;
- (m) provide quarterly reports to the Trustee (and ASIC) in accordance with section 283BF of the Corporations Act within 1 month of the end of each quarter; and
- (n) provide half yearly audit reviewed financial reports and yearly audited reports to the Trustee in accordance with, and subject to the time periods contemplated by section 318 of the Corporations Act.

### ***Trustee's Fees***

In consideration for the performance of its obligations under the Convertible Notes Trust Deed, the Trustee will be paid a fee of \$22,000 per annum payable over the term of the Convertible Notes Trust Deed, and all costs, charges and expenses reasonably incurred by or on behalf of the Trustee.

### ***Retirement of Trustee***

Subject to the Corporations Act, the Trustee may resign at any time on giving not less than 30 days' written notice to the Company. However, that retirement will not take effect until a new trustee has been appointed. The Company has the power to appoint a new trustee. If a new trustee has not been appointed by the Company, the Trustee may appoint a new trustee.

### ***Meetings of Noteholders***

The Trustee or the Company may at any time convene a meeting of Noteholders in the manner provided for in the Convertible Notes Trust Deed. The Company must convene a meeting of Noteholders at the request in writing of Noteholders representing not less than 10% of the aggregate face value of all the Convertible Notes. At least 14 days' notice must be given of every Noteholders' meeting, and 21 days' notice in respect of meetings at which a Special Resolution will be considered.

At any meeting of Noteholders, Noteholders present in person or by proxy representing 10% of the aggregate face value of all the Convertible Notes forms a quorum.

### ***Events of default***

The following constitute events of default under the Convertible Notes Trust Deed:

- (a) a failure by the Company to make a payment as and when required under the Deed or a related transaction document and such failure continues unremedied for a period of 7 Business Days after the Company has received written notice from the Trustee or any Noteholder in respect of such failure;
- (b) the Company becomes insolvent;
- (c) the Company is suspended from trading on the ASX for more than 20 consecutive Business Days;
- (d) if the Company fails to redeem or convert a Note in accordance with the conditions of issue of the Notes and the failure continues unremedied for a period of 7 Business Days after the Company has received written notice from the Trustee in respect of such failure;
- (e) the Notes cease to be quoted on ASX; or
- (f) if the Company commits a material breach of a covenant, condition or obligation imposed on it by the Convertible Notes Trust Deed and that breach is either incapable of remedy, and is reasonably likely to have a material adverse effect on the ability of the Company to observe its obligations to Noteholders, or if the default is capable of remedy, it has not been remedied within 7 Business Days of receiving written notice of the breach from the Trustee requiring that breach to be remedied.

### ***Consequences of an event of default***

On the occurrence of an event of default, the Trustee may (but is not obliged to) but must if instructed by a Special Resolution of the Noteholders or requested in writing by Noteholders holding at least 51% of the total value of Notes then outstanding and subject to the Trustee being appropriately indemnified against all claims, losses and costs of doing so:

- (a) require the Company to redeem the Convertible Notes at which time all principal and accrued interest becomes immediately due and payable;
- (b) exercise any of its rights, remedies, powers or discretions under the Convertible Notes Trust Deed exercise any of its powers under the Corporations Act; or
- (c) issue a default notice to the Company requiring that the default be immediately remedied to the satisfaction of the Trustee.

The Trustee is entitled to assume that no event of default has occurred and that no party is in breach of its obligations under the Convertible Notes Trust Deed or any related transaction document unless it has actual knowledge to the contrary. Subject to section 283DA of the Corporations Act, the Trustee need not notify any person of any breach of the Convertible Notes Trust Deed or the Conditions of Issue or take any steps to ascertain whether there has occurred (and will not be deemed to have knowledge that such has occurred until it has received written notice from the Company or a Noteholder in relation to such) any event of default.

### ***Indemnity***

In addition to the Trustee's right of indemnity under law, the Company must indemnify the Trustee in respect of all liabilities and expenses incurred in the performance of its duties as Trustee other than a claim arising from gross negligence, wilful misconduct or fraud.

The Trustee will not:

- (a) be liable to the Noteholders to any greater extent than the moneys actually received by the Trustee in accordance with the Convertible Notes Trust Deed and payable to such Noteholders, other than to the extent that the trust assets have been reduced by reason of fraud, gross negligence or wilful misconduct by the Trustee in the performance of its duties as trustee;
- (b) be responsible for acting upon any resolution purporting to have been passed at any meeting of Noteholders at which minutes were made and signed even though it may subsequently be found that there was some defect in the constitution of the meeting or the passing of the resolution or that for any other reason the resolution was not valid or binding upon the Trustee or any of the Noteholders it purports to bind;
- (c) be obliged to determine whether an Event of Default has occurred or any party is in breach of or has performed its obligations under the Convertible Notes Trust Deed or the Conditions of Issue or any related transaction document;
- (d) to the extent permitted by the Corporations Act, be liable under the Convertible Notes Trust Deed or the Conditions of Issue for any action taken or omitted to be taken under or in connection with the Convertible Notes Trust Deed or any related transaction document unless resulting directly from its gross negligence, wilful misconduct or fraud.

Subject to (d) above, neither the Trustee nor any of its directors, officers, employees, agents, delegates, attorneys, related bodies corporate or successors has any liability or obligation to a Noteholder or the Company:

- (a) for any failure or delay by the Company or any other party in performing its respective obligations under the Convertible Notes Trust Deed and the Conditions of Issue or a related transaction document;
- (b) for the authorisation, execution, legality, validity, enforceability, effectiveness, genuineness, admissibility in evidence of sufficiency of the Convertible Notes Trust Deed and the Conditions of Issue or a related transaction document;
- (c) for the completeness or accuracy of any recital, representation, warranty or statement made in or in connection with the Convertible Notes Trust Deed and the Conditions of Issue or a related transaction document or any certificate or other document referred to, provided for in or received by it under the Convertible Notes Trust Deed or a related transaction document;
- (d) for the accuracy or completeness of any information supplied by any person, whether or not that information is circulated by the Trustee;

- (e) for acting or refraining from acting in accordance with the instructions of the Noteholders under or in connection with the Convertible Notes Trust Deed and the Conditions of Issue or a related transaction document;
- (f) for any omission or delay in giving notice to any third party, making any filing or registration, obtaining any authorisation or perfecting a security in any other way;
- (g) for any absence of, or defect in the title of the Company to any asset of the Company; or
- (h) for the financial condition or solvency of the Company.

The Noteholders and the Company each release the Trustee and any director, officer, employee, agent, delegate, attorney, related body corporate or successor of the Trustee from any claim it may have against any of them for any matter referred to above.

## **5.2 Underwriting Agreement**

### **(a) Underwriting**

The Company and the Underwriter have entered into an underwriting agreement dated 26 May 2014 (**Underwriting Agreement**) pursuant to which the Company appoints the Underwriter to underwrite the subscription of the Convertible Notes. The Underwriter may appoint sub- underwriters to assist in the performance of its obligations.

### **(b) Payments**

The Company must pay to the Underwriter fees equivalent to 5% of the aggregate amount raised by the Company pursuant to the Rights Issue. This amount is payable out of the proceeds of the Rights Issue, on the Business Day on which the Company allots the whole of the Rights Issue.

The Company must also reimburse the Underwriter for:

- (i) all its reasonable out of pocket expenses in relation to the Underwriting Agreement, this Prospectus and the Rights Issue (including marketing the Rights Issue and in conducting due diligence enquiries with respect to the Rights Issue); and
- (ii) all reasonable legal costs of the Underwriter's lawyers, for the preparation, negotiation and completion of the Underwriting Agreement (and any Sub-Underwriting Agreement); review of due diligence procedures and this Prospectus.

Payment of the Underwriters costs and expenses is to be made within three Business Days following demand (which may be made monthly) made by the Underwriter.

If the Underwriter terminates the Underwriting Agreement the fees are not payable. However the Company remains liable for any fees and expenses outstanding or payable under the mandate letter between the Underwriter and the Company dated 17 April 2014.

### **(c) Cessation of Underwriter's Obligations**

The obligations and liability of the Underwriter under the Underwriting Agreement cease on the first to occur of:

- (i) the Company receiving valid Applications for all of the underwritten Convertible Notes (including payments for such securities being in immediately available funds);

- (ii) the Company failing to advise the Underwriter of any shortfall by the required date;
- (iii) the Underwriter discharging its obligations to meet a shortfall; and
- (iv) the date on which the Underwriter terminates its obligations due to the occurrence of a termination event (as described in paragraph 6.2(d) below) (**Termination Event**).

**(d) Termination Events**

The Underwriter may terminate its obligations pursuant to the Underwriting Agreement at any time until all Convertible Notes in respect of which valid Applications have been received have been allotted by giving written notice to the Company if:

- (i) **(ASIC Stop Order)** The ASIC gives notice of intention to hold a hearing in relation to the Prospectus under section 739(2) of the Corporations Act or indicates an intention to issue an order or makes an order under sections 739(1), 739(3) or 739(4) of the Corporations Act.
- (ii) **(Prospectus defect)**: There is an omission from, or a statement which is, or has become, false or misleading in this Prospectus and such omission or statement is or is likely to be materially adverse from the point of view of an investor.
- (iii) **(Supplementary Prospectus and Repayments)**: The Company chooses to or comes under an obligation, including in accordance with the *Corporations Act 2001*, to issue a supplementary or replacement prospectus or to repay any moneys received by the Company from any applicant, where the Underwriter is of the opinion that the extension has, or could reasonably be expected to have, a material adverse effect on the willingness of persons to apply for Convertible Notes at the issue price or on any shortfall.
- (iv) **(ASIC Hearing and Investigation)**: The ASIC gives notice of intention to hold a hearing examination, inspection, investigation, or it requires information to be disclosed, in connection with the Company, this Prospectus or the issue of Convertible Notes.
- (v) **(New circumstance)**: if a new circumstance has arisen since this Prospectus was lodged and would have been required under Chapter 6D of the Corporations Act to be included in this Prospectus if it had arisen before this Prospectus was lodged and is, or is likely to be, materially adverse from the point of view of an investor.
- (vi) **(fails to comply)**: The Company or any of its Related Parties fails to comply with:
  - (A) a clause of its Constitution;
  - (B) a statute;
  - (C) any policy or guideline of the ASIC or any other requirement, order or request made by or on behalf of the ASIC or any governmental agency;
  - (D) the Listing Rules;

where such failure will have a material adverse effect on the issue of Convertible Notes.

- (vii) **(no quotation)**: The ASX does not, or states that it will not, permit official quotation of the Convertible Notes.
- (viii) **(Timetable)**: Any event specified in the timetable of the Underwriting Agreement is delayed for more than three Business Days.
- (ix) **(S&P/ASX 200 Index)**: The S&P/ASX 200 Index falls to a level which is more than 10% below that index as at close of business of the ASX on the Business Day immediately before the date of the Underwriting Agreement and remains at or below that level for a period of 3 or more consecutive trading days.
- (x) **(certificate)**: Any No Default Certificate is not delivered to the Underwriter in accordance with the Underwriting Agreement.
- (xi) **(breach)**: The Company materially defaults under any provision of the Underwriting Agreement including any representation warranty or undertaking.
- (xii) **(charge)**: The Company or any of its Related Parties charges or agrees to charge (or grant any other form of security) over the whole or a substantial part of its business or property to any third party.
- (xiii) **(general)**: Any of the following occurs:
  - (A) After the date of the Underwriting Agreement there is any:
    - material adverse change; or
    - any act, omission or thing which could reasonably be expected to result in a material adverse change,
 in the financial position (including profitability) of the Company.
  - (B) **(legislation)**: There is introduced into the Parliament of the Commonwealth of Australia or of an Australian State or Territory:
    - a law intended to come into effect within 12 months;
    - the Reserve Bank of Australia adopts a policy; or
    - there is any official announcement on behalf of the Government of the Commonwealth of Australia or of the Government of an Australian State or Territory, the Reserve Bank of Australia or any Commonwealth financial authority that a law will be introduced or policy adopted (as the case may be) with effect from the date of the announcement or within three months afterwards,
 which has altered adversely or could reasonably be expected to alter adversely:
    - any condition or circumstance relating to the rights attaching to Convertible Notes, the issue or this Prospectus existing at the time of execution of the Underwriting Agreement; or
    - the income tax position of the Company including, without limitation, the distributable income of the Company or the tax position of shareholders in the Company.

- (xiv) **(ASIC Prosecution)**: The ASIC gives notice of an intention to prosecute the Company or any director or general manager of the Company.
- (xv) **(Court Order)**: An order is made in connection with this Prospectus or the issue of Convertible Notes including under Sections 1324 and 1325 of the Corporations Act.
- (xvi) **(Criminal Offence Act)**: Any director or general manager of the Company is prosecuted for a criminal offence.
- (xvii) **(withdrawal)**: This Prospectus is withdrawn by the Company at any time prior to all the Convertible Notes having been allotted.
- (xviii) **(Capital Structure)**: The Company or a Related Body Corporate of the Company alters its capital structure without the prior written consent of the Underwriter (except for an alteration referred to in the Prospectus) or issues or agrees to issue any shares, options or equity securities (as that term is defined in the Listing Rules) since the date of the Underwriting Agreement other than as set out in that agreement.
- (xix) **(Directors)**: There are any changes to the Board of Directors of the Company after the date of the Underwriting Agreement without the prior written consent of the Underwriter.
- (xx) **(Acquisition)**: The Company acquires any major asset or enters into any major expenditure other than in accordance with any proposals set out in the Prospectus.
- (xxi) **(Insolvency)**: The Company:
  - (A) suspends payment of its debts generally; or
  - (B) suffers an Insolvency Event.
- (xxii) **(business)**: The Company or any of its Related Parties;
  - (A) dispose or agree to dispose of the whole or a substantial part of its business or property;
  - (B) ceases or threatens to cease to carry on business,
  - (C) changes or agrees to change the whole or a substantial part of its business or property (except for a charge referred to in the Prospectus),

without the prior written consent of the Underwriter.
- (xxiii) **(Takeovers Panel)** the Takeovers Panel makes a declaration that circumstances in relation to the affairs of the Company, the issue of Convertible Notes, or the Offer are unacceptable circumstances under Pt 6.10 of the Corporations Act, or an application for such a declaration is made to the Takeovers Panel.

The Underwriter can only exercise its rights to terminate if the Underwriter determines reasonably and in good faith that any event specified in (xiii) has or would have had a material adverse effect on the Rights Issue or could create a liability for the Underwriter under the Corporations Act.

**(e) Representations and undertakings in the Underwriting Agreement**

The Company has provided certain representations and undertakings to the Underwriter in relation to this Prospectus that must be and must remain not false or misleading until the Underwriter has no further liability to underwrite the subscription.

**(f) Company indemnity**

The Company indemnifies the Underwriter and its directors, employees and advisers (the **Indemnified Parties**) against each claim, judgment, damage, loss, expense (including, without limitation, all reasonable legal costs and disbursements of lawyers) or liability incurred or suffered by or brought or made or recovered against the Indemnified Parties in connection with:

- (g) this Prospectus, its content, publication and issue including any misleading or deceptive statement in or any material omission from this Prospectus;
- (h) any statement in or any omission from any information, announcement, advertisement or publicity in relation to this Prospectus or the Rights Issue:
  - (i) made or distributed by the Company; or
  - (ii) made or distributed by the Underwriter with the consent or knowledge of the Company;

including where that statement or omission is found to be misleading or deceptive;

- (i) any non-compliance by the Company with the Corporations Act, the Listing Rules or any other legal obligation in relation to the Rights Issue or this Prospectus; or
- (j) any breach by the Company of its representations, warranties and undertakings in the Underwriting Agreement.

**Control Issues**

The Underwriter is the holder of a substantial interest in the Company with voting power of 19.13% as at the date of this Prospectus. If no Shareholder other than the Underwriter participates in the Rights Issue and the shortfall is allocated to the Underwriter, the voting power of the Underwriter will be unchanged but the Underwriter will hold 7,287,870 Convertible Notes. If all the Convertible Notes issued to the Underwriter are converted, the Underwriter will hold 11,765,266 Shares representing voting power in the Company of approximately 32.2% (and ignoring the effect of any Shares able to be acquired upon exercise of the Options to be issued to the Underwriter upon conversion of the Convertible Notes).

## **6 Risk factors**

The Convertible Notes to be issued under this Prospectus involve certain risks and are considered to be speculative. Additionally, the value of the Company's securities on ASX may rise and fall depending on a range of factors, many of which are beyond the control of the Company. While prudent management techniques will be used by the Company to minimise the risks to investors, before any decision is made to subscribe for the Convertible Notes, the following matters, as well as all other matters described in this Prospectus, must be carefully considered by any investor when evaluating an investment in the Company.

This Prospectus carries no guarantee with respect to the payment of dividends, return of capital or price at which Convertible Notes (or the underlying securities) will trade.

The Directors regard the following risk factors (which are not exhaustive) as important and should be considered by Shareholders when deciding whether or not to apply for Convertible Notes.

## **6.1 Specific Risks**

### **(a) Profitability**

The Company has undergone a significant turnaround over the past 18 months. While the Directors are positive about the Company's prospects, and confident that the Company can return to profitability in the 2014 calendar year, a number of potential operational factors may impact the business, including the Company's ability to meet forward budgets and cash flow projections and manage its cash flows within its funding facilities.

### **(b) Component sourcing**

A material change in Stokes Limited's component sourcing arrangements could have an adverse impact on the Company. Risks include:

- (i) any change in existing relationships could have an adverse impact on the ability of Stokes Limited's ability to source appropriate components at reasonable cost;
- (ii) any change in quote arrangements may impact the sourcing of Stokes Limited's products, and therefore impact the profitability of the Company; and
- (iii) any change in the terms and conditions of overseas supply contracts or in the political or economic environment could adversely impact supply from overseas.

### **(c) Ongoing capital requirements**

If the Company requires access to further funding at any future stage, the Company may be adversely affected in a material way if access to that capital is not available for any reason. There can be no assurance that additional funds will be available. If additional funds should be raised by issuing equity securities, this might result in dilution to the Shareholders then existing.

### **(d) Ability to attract and retain personnel**

The success of the Company depends in part on its ability to identify, attract, motivate and retain suitably qualified management personnel. Competition for staff in this regard is strong. The inability to access and retain the services of a sufficient number of qualified staff could be disruptive to the business development efforts of Stokes and could materially adversely affect its operating results. Similarly, the loss of any current key personnel may have an adverse material effect on the Company's ability to conduct its activities.

### **(e) Contract risks**

The Group operates through a series of contractual relationships with operators and sub-contractors. All contracts carry risks associated with the performance by the parties thereto of their obligations as to time and quality of work performed. Any disruption to services or supply may have an adverse effect on the financial performance of the Company's operations.

### **(f) Equipment risk**

The operations of Stokes could be adversely affected if essential equipment fails.

**(g) Litigation**

Neither the Company nor any of its Subsidiaries are presently involved in litigation and the Directors are not aware of any basis on which any litigation against the Company or any of its Subsidiaries may arise. However, a litigious action may be threatened or brought against the Company in the future and any such action or threat may adversely affect the Company's reputation and profitability.

**6.2 Share Market Risk**

Regardless of the performance of the Company, the day to day performance of the share market and general share market conditions may affect the Company. The share market has in the past and may in the future be affected by a number of matters including:

- (a) economic conditions in general terms and in particular to the industry that the business operates in;
- (b) interest rates;
- (c) market confidence;
- (d) supply and demand for money;
- (e) currency exchange rates;
- (f) general economic outlook; and
- (g) changes in government policy.

**6.3 Insurance Risks**

The Company maintains insurance coverage that is substantially consistent with industry practice. However, there is no guarantee that such insurance or any future necessary coverage will be available to us at economically viable premiums, (if at all), or that, in the event of a claim, the level of insurance carried by the Company now or in the future will be adequate or that a liability or other claim would not materially and adversely affect our business.

**6.4 Possible Volatility in the Market Price of the Company's Shares and Convertible Notes**

Although the Company is listed on the ASX, there is no assurance that an active trading market for its Shares or Convertible Notes will be sustained. There is also no assurance that the market price for the Company's Shares and the Convertible Notes will not decline below the face value of the Convertible Notes (AU\$0.35 (35 cents)).

The market price of the Company's Shares and the Convertible Notes could be subject to significant fluctuations due to various external factors and events including the liquidity of the Company's Shares and the Convertible Notes in the market, difference between the Company's actual financial or operating results and those expected by investors and analysts, the general market conditions and broad market fluctuations. Furthermore, any stock market and commodity price volatility and weakness could result in the Company's Shares and the Convertible Notes trading at prices significantly below the face value of the Convertible Notes, without regard to the Company's operating performance.

**6.5 Economic risks**

**(a) Economic risk and external market factors**

Factors such as political movements, stock market trends, changing customer preferences, interest rates, inflation levels, commodity prices, exchange rates, industrial disruption, environmental impacts and attitudes, international competition, taxation changes and legislative or regulatory changes may all have an adverse impact on the Company's operating costs, profit margins and share price. These factors are beyond the control of Stokes Limited and the Company cannot predict with sufficient certainty how they might impact its performance.

**(b) War and acts of terror**

War or terrorist attacks anywhere in the world could result in a decline in economic conditions worldwide, or in a particular region. There could also be a resultant material adverse effect on the business, financial condition and financial performance of Stokes Limited.

**(c) Foreign exchange risk**

Revenue and expenditure in overseas jurisdictions are subject to the risk of fluctuations of international currency exchange markets. Foreign taxes, limitation on repatriation of earnings, compliance with foreign accounting and business laws, and cultural differences, carry a certain amount of risk. Fluctuations in exchange rates may adversely affect the Company and its share price.

**6.6 Risks associated with Convertible Notes**

**(a) Interest Payment**

The Company expects to make interest payments using available cash balances and cash flow from operations. The Company's ability to generate cash flows from its operations will depend substantially on the performance of its management team and its existing businesses. The interest payments on the Convertible Notes are not guaranteed by the Company, the Trustee or any other entity.

**(b) Interest Rate risk**

Interest is payable quarterly in arrears. No adjustment will be made to the rate of interest paid to Noteholders as other market based interest rates rise or fall.

The market price of the Convertible Notes on ASX may fluctuate due to changes in interest rates generally, credit spreads on other corporate securities or investor sentiment towards the Company.

**(c) Liquidity**

The market for Convertible Notes may be less liquid than the market for Ordinary Shares. There can be no assurance that investors will be able to buy or sell Convertible Notes on ASX.

The Company will seek quotation of the Convertible Notes on ASX to permit on market trading of the Convertible Notes.

**(d) Redemption Risk**

The Company expects to be able to redeem the Convertible Notes using the proceeds from future debt or equity raisings or cash flows from operations (or both).

There is a risk that the Company would be unable to procure or raise sufficient cash resources from future debt or equity raisings or sale of investments and would, in that case, have insufficient cash flows to redeem the Convertible Notes at the Maturity Date.

None of the Company, the Trustee or any other entity have guaranteed the redemption of the Convertible Notes.

**(e) Further Issues**

The Company may issue further securities with the same or different terms as the Convertible Notes. The Company may issue other securities including further Convertible Notes that rank for interest, redemption or payment in a winding-up of the Company equally with or behind the Convertible Notes, without the approval of Noteholders.

**(f) Dilution risk**

The Company may undertake additional offerings of securities in the future. The increase in the number of issued Ordinary Shares or securities convertible into Ordinary Shares and the possibility of sales of such securities may depress the price of Ordinary Shares already on issue and of the Convertible Notes. In addition, as a result of the issue of Ordinary Shares, the voting power and proportionate economic interest of the Company's existing Shareholders (and, indirectly, of holders of the Convertible Notes) will be diluted. The Terms of Issue of the Convertible Notes provide for an adjustment to the Conversion Price or participation rights in relation to only a limited class of future offerings of securities or in situations where it is lawful to do so (refer Terms of Issue described in section 8).

**(g) Enforcement risk**

Noteholders are not entitled to proceed directly against the Company to enforce any right or remedy under or in respect of any Convertible Note unless the Trustee, having become bound to so proceed, fails to do so within a reasonable period and the failure is continuing, in which case any such Noteholder may itself institute proceedings against the Company to the same extent that the Trustee would have been entitled to do so. Any such proceedings must be brought in the name of the Noteholder and not the Trustee.

**6.7 Speculative nature of investment**

The above list of risk factors ought not to be taken as an exhaustive list of the risks faced by the Company or investors in the Company. The above factors, along with other factors not mentioned above, may in the future materially affect the financial performance of the Company and the value of its Shares.

Therefore, the Convertible Notes carry no guarantee with respect to the payment of dividends, returns of capital or their market value. Shareholders should consider that the investment in the Company is speculative and should consult their professional advisers before deciding whether to invest.

## **7 Additional information**

### **7.1 Litigation**

The Directors are not aware of any litigation of a material nature in progress, pending or threatened which may significantly affect the financial position of the Company.

### **7.2 Directors' Interests and Benefits**

Pursuant to this Rights Issue, the Directors who hold Shares directly and indirectly will receive (in their capacities as Shareholders) an entitlement to Convertible Notes of the same proportion as all other Shareholders.

The number of Shares held (directly or indirectly) by or on behalf of each Director on the date of this Prospectus is as follows:

| <b>Director</b> | <b>Shares</b>     |
|-----------------|-------------------|
| Con Scrinis     | 3,786,750         |
| Peter Jinks     | 3,786,000         |
| Greg Jinks      | 3,786,000         |
| Total           | <u>11,358,750</u> |

Other than as disclosed in this Prospectus, no Director or proposed Director holds, at the time of lodgement of this Prospectus with ASIC, or has held in the 2 years before lodgement of this Prospectus with ASIC, an interest in:

- the formation or promotion of the Company;
- the Rights Issue; or
- any property acquired or proposed to be acquired by the Company in connection with its formation or promotion of the Rights Issue.

Other than as disclosed in this Prospectus, no one has paid or agreed to pay any amount, and no one has given or agreed to give any benefit, to any Director or proposed Director:

- to induce a person to become, or qualify as, a Director; or
- for services provided by a Director or proposed Director in connection with the formation or promotion of the Company or the Rights Issue.

### **7.3 Dividend Policy**

Any future determination as to the payment of dividends by the Company will be at the discretion of the Directors and will depend on the availability of distributable earnings, the operating results, financial condition and capital requirements of the Company, general business conditions and such other factors as the Directors consider relevant.

It is not expected that any dividends will be declared in the near future.

### **7.4 Continuous Disclosure and Documents Available for Inspection**

The Company is a disclosing entity for the purposes of Section 111AC(1) of the Corporations Act and is therefore subject to regular reporting and disclosure obligations under the Corporations Act and the ASX Listing Rules. These obligations require the ASX to be continuously notified of information about specific events and matters as they arise for the

purpose of the ASX making the information available to the stock market conducted by the ASX. In particular, the Company has an obligation under the ASX Listing Rules (subject to certain limited exceptions), to notify the ASX immediately of any information concerning the Company, of which it becomes aware which a reasonable person would expect to have a material effect on the price or value of Shares. It is also required to prepare and lodge with ASIC both yearly and half-yearly financial statements accompanied by a Directors' statement and report and an audit or review report.

This Prospectus is issued pursuant to Section 713 of the Corporations Act and ASIC Class Order 00/195. A company may only issue a prospectus pursuant to Section 713 where the Company has been a listed disclosing entity for a period of at least 12 months and its securities have been quoted by the ASX at all times in the 12 months before the issue of the prospectus. Class Order 00/195 permits a prospectus for convertible securities to be issued pursuant to Section 713 where upon conversion the investor will be issued continuously quoted securities, as will occur upon the Conversion of these Convertible Notes into Shares.

Apart from formal matters, a prospectus issued pursuant to Section 713 needs to contain less information than a full prospectus but still all the information that investors and their professional advisers would reasonably require to make an informed assessment of the effect of the Rights Issue on the Company and the rights and obligation attaching to the Convertible Notes. This information must be disclosed to the extent that investors and their professional advisers would reasonably expect to find in this Prospectus.

Copies of documents lodged with ASIC in relation to the Company may be obtained from, or inspected at, an office of ASIC.

## **7.5 Other Documents**

The Company will provide a copy of any of the following documents free of charge to any person who requests a copy during the Application period in relation to this Prospectus:

- (a) the financial reports of the Company for the financial year ended 30 June 2013 and the 30 June 2013 Annual Report (2013 Annual Report) (being the most recent annual financial reports lodged with ASIC before the issue of this Prospectus);
- (b) the half year financial report lodged with ASIC by the Company for the 6 month period ending 31 December 2013 (being the most recent half-year financial report lodged with ASIC after the annual financial reports described in (a) above and before the issue of this Prospectus); and
- (c) any other document or financial report lodged by the Company with ASIC or the ASX under the continuous disclosure reporting requirements in the period after the date of lodgement of the 2013 Annual Report to the date of this Prospectus.

The following is a list of announcements released to ASX since the date of lodgement of the Company's 2013 Annual Report:

| <b>Date</b> | <b>Announcement</b>                                    |
|-------------|--------------------------------------------------------|
| 25/02/2014  | Half Yearly Report and Accounts                        |
| 18/02/2014  | Profit Guidance                                        |
| 04/12/2013  | New Constitution                                       |
| 04/12/2013  | Name Change for Stokes                                 |
| 02/12/2013  | Notice of change of interests of substantial holder x3 |
| 02/12/2013  | Change of Directors Interest Notice x3                 |
| 02/12/2013  | Information required under ASX listing Rule 3.10.5A    |
| 02/12/2013  | Cleansing Notice                                       |
| 02/12/2013  | Appendix 3B                                            |
| 28/11/2013  | Results of Meeting                                     |
| 28/11/2013  | Managing Director's AGM Presentation                   |
| 28/11/2013  | Chairman's Address to Shareholders                     |
| 01/11/2013  | Cleansing Notice                                       |
| 01/11/2013  | Appendix 3B                                            |
| 29/10/2013  | Constitution                                           |
| 28/10/2013  | Notice of Annual General Meeting/Proxy Form            |
| 28/10/2013  | Placement announcement                                 |
| 24/10/2013  | Trading Halt                                           |

## 7.6 Consents and Responsibility Statements

The Company has authorised and caused the issue of this Prospectus. The Company and the Directors are wholly responsible for its contents. None of the parties referred to below has made, or has purported to make, any statement that is included in this Prospectus or any statement on which a statement made in this Prospectus is based, other than as specified below. Each of these parties, to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any statements or omissions from this Prospectus, other than a reference to its name and a statement or report included in this Prospectus with the consent of that party as specified below.

Pitcher Partners has had no involvement in the preparation of any part of the Prospectus other than being named as Auditors to the Company. Pitcher Partners has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of this Prospectus.

Computershare Investor Services Pty Limited has had no involvement in the preparation of any part of the Prospectus other than being named as Share Registrar to the Company. Computershare Investor Services Pty Limited has not authorised or caused the issue of, and other than to the extent of its liability under the Corporations Act expressly disclaims and takes no responsibility for, any part of this Prospectus.

JM Financial Group Limited has had no involvement in the preparation of any part of the Prospectus other than being named as Underwriter to the Company. JM Financial Group Limited has not authorised or caused the issue of, and to the extent permitted and expressly disclaims and takes no responsibility for, any part of this Prospectus.

Australian Executor Trustees Limited has had no involvement in the preparation of any part of the Prospectus other than being named as trustee of the Convertible Notes Trust Deed. Australian Executor Trustees Limited has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of this Prospectus.

## **7.7 Interests of Advisers**

Expenses of the Rights Issue, including ASIC and ASX fees, trustees fees, printing costs, administration and legal costs are estimated to be approximately \$206,000.

Other than as set out in this Prospectus, no person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus holds at the time of lodgement of this Prospectus with ASIC, or has held in the 2 years before lodgement of this Prospectus with ASIC, an interest in:

- the formation or promotion of the Company;
- the Rights Issue; or
- any property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Rights Issue,

nor has anyone paid or agreed to pay or given or agreed to give any benefit to such persons in connection with the formation or promotion of the Company or the Rights Issue.

## **7.8 Consents to be Named**

Every Director named in this Prospectus has given, and not withdrawn, his consent in accordance with Section 720 of the *Corporations Act 2001* to the lodgement of this Prospectus with ASIC.

Pitcher Partners has given and, as at the date hereof, has not withdrawn, its written consent to be named in this Prospectus as the Auditor to the Company in the form and in the context in which it is named.

Logie-Smith Lanyon has given and, as at the date hereof, has not withdrawn, its written consent to be named in this Prospectus as the legal adviser to the Rights Issue in the form and in the context in which it is named.

Computershare Investor Services Pty Limited has given and, as at the date hereof, has not withdrawn, its written consent to be named in this Prospectus as the Share Registrar in the form and in the context in which it is named.

JM Financial Group Limited has given and, as at the date hereof, has not withdrawn, its written consent to be named in this Prospectus as the Underwriter to the Rights Issue in the form and in the context in which it is named.

Australian Executor Trustees Limited has given and, as at the date hereof, has not withdrawn, its written consent to be named in this Prospectus as the trustee under the Convertible Notes Trust Deed in the form and in the context in which it is named.

## **7.9 Inspection of Documents**

The following documents are available for inspection during normal business hours at the registered office of the Company:

- (a) the Constitution of the Company;
- (b) the Convertible Notes Trust Deed;
- (c) the Underwriting Agreement;
- (d) the consents referred to in this Prospectus;
- (e) any announcements made by the Company in terms of the Company's continuous disclosure obligations;
- (f) the financial reports of the Company for the year ended 30 June 2013 (being the most recent annual financial reports lodged with ASIC before the issue of this Prospectus); and
- (g) the half year financial report of the Company for the half year ended 31 December 2013 (being the most recent half year financial reports lodged with ASIC before the issue of this Prospectus).

#### **7.10 Directors Responsibility Statement**

The Directors of the Company state that they have made all reasonable enquiries and have reasonable grounds to believe that any statements made by the Directors in this Prospectus are true and not misleading.

In accordance with Section 351 of the *Corporations Act 2001*, this Prospectus has been signed by a Director of the Company on 26 May 2014.

## 8 Glossary

|                                          |                                                                                                                                                                                                                                                                                                               |
|------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>AEST</b>                              | means Australian Eastern Standard Time.                                                                                                                                                                                                                                                                       |
| <b>Application</b>                       | means a valid application made upon the conditions set out in this Prospectus by using an Entitlement and Acceptance Form to apply for a specified number of Convertible Notes.                                                                                                                               |
| <b>Applicant</b>                         | means a Shareholder who makes an Application.                                                                                                                                                                                                                                                                 |
| <b>ASIC</b>                              | means the Australian Investments and Securities Commission.                                                                                                                                                                                                                                                   |
| <b>ASX</b>                               | means the Australian Stock Exchange Limited.                                                                                                                                                                                                                                                                  |
| <b>AUS</b>                               | means the lawful currency of the Commonwealth of Australia.                                                                                                                                                                                                                                                   |
| <b>Business Day</b>                      | has the meaning given to that expression in the Listing Rules.                                                                                                                                                                                                                                                |
| <b>Conditions of Issue</b>               | means the conditions of issue for a Convertible Note as detailed in the Convertible Notes Trust Deed and set out in Annexure 1 to this Prospectus.                                                                                                                                                            |
| <b>Closing Date</b>                      | means the last day for receipt of the completed Entitlement and Acceptance forms for the Convertible Notes, offered by this Prospectus, being 17 June 2014, unless varied by the Company.                                                                                                                     |
| <b>Company, Stokes or Stokes Limited</b> | means Stokes Limited ACN 004 554 929 (ASX Code: SKS).                                                                                                                                                                                                                                                         |
| <b>Conditions of Issue</b>               | means the Conditions of Issue of Convertible Notes as detailed in Annexure 1                                                                                                                                                                                                                                  |
| <b>Constitution</b>                      | means the constitution of the Company from time to time.                                                                                                                                                                                                                                                      |
| <b>Conversion (or Convert)</b>           | means the conversion of Convertible Notes by the Noteholder into Shares pursuant to the terms of the Convertible Notes Trust Deed.                                                                                                                                                                            |
| <b>Conversion Rights</b>                 | means the right of conversion into Shares attached to the Convertible Notes in accordance with the terms of the Convertible Notes Trust Deed.                                                                                                                                                                 |
| <b>Convertible Notes Trust Deed</b>      | means the convertible note trust deed dated on or about the date of this Prospectus between the Company and the Trustee pursuant to which the Trustee has agreed to hold the rights of the Noteholders on trust, on the terms and conditions of the Convertible Notes Trust Deed and the Conditions of Issue. |
| <b>Convertible Notes</b>                 | means up to 7,287,820 listed unsecured convertible notes of the Company, subject to the terms and conditions set out in Annexure 1.                                                                                                                                                                           |
| <b>Corporations Act</b>                  | means the <i>Corporations Act 2001</i> (Cth).                                                                                                                                                                                                                                                                 |
| <b>Coupon Rate</b>                       | means the rate of 10% per annum payable quarterly in arrears unless stated otherwise.                                                                                                                                                                                                                         |
| <b>Directors/Board</b>                   | means the Directors of the Company at the date of this Prospectus.                                                                                                                                                                                                                                            |
| <b>Entitlement</b>                       | means the right or entitlement of a Shareholder to subscribe for Convertible Notes.                                                                                                                                                                                                                           |

**Entitlement and  
Acceptance Form**

means the entitlement and acceptance form accompanying this Prospectus, and on which an Applicant must apply for Convertible Notes.

**Exercise Price**

means the price at which an Option may be exercised, being AU\$0.35 (35 cents) each.

**Group**

means the Company and any of its controlled entities.

**Interest Period**

means a period in respect of which interest is to be calculated and payable as described in Paragraph 2.6 and is, unless determined otherwise pursuant to the Convertible Notes Trust Deed, a period of 3 months, except that the first Interest Period commences on the date of allotment of the Convertible Note until 30 September 2014.

**Insolvency Event**

with respect to the Company (or any of its Related Parties) means the happening of any one or more of the following events:

- (a) an application is filed or an order is made or an effective resolution is passed for the winding up of the Company (or any of its Related Parties);
- (b) an application is made to a court for an order appointing a liquidator or provisional liquidator in respect of the Company (or any of its Related Parties), or one of them is appointed whether or not under an order;
- (c) a resolution is passed to appoint an administrator or an official manager in respect of the Company (or any of its Related Parties);
- (d) the Company (or any of its Related Parties) enters into, or resolves to enter into, a scheme of arrangement or composition with, or assignment for the benefit of, all or any class of its creditors, or it proposes a reorganisation, moratorium or other administration involving any of them;
- (e) the Company (or any of its Related Parties) resolves to wind itself up, or otherwise dissolve itself, or gives notice of intention to do so, or is otherwise wound up or dissolved;
- (f) the Company (or any of its Related Parties) is, or states that it is, unable to pay its debts when they fall due;
- (g) the Company (or any of its Related Parties) takes any step to obtain protection or is granted protection from its creditors, under any applicable legislation;
- (h) any secured creditor of the Company (or any of its Related Parties) enforces its security; or
- (i) anything having a substantially similar effect to any of the events specified above happens to the Company (or any of its Related Parties) under the law of any applicable jurisdiction.

|                                              |                                                                                                                                                                                                          |
|----------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Listing Rules</b>                         | means the Official Listing Rules of the ASX.                                                                                                                                                             |
| <b>Maturity date</b>                         | means 30 June 2017.                                                                                                                                                                                      |
| <b>New Share</b>                             | means a Share issuing upon conversion of a Convertible Note offered under this Prospectus.                                                                                                               |
| <b>Noteholder</b>                            | means those persons whose names are entered in the Register as holders of the Convertible Notes.                                                                                                         |
| <b>Offer</b>                                 | Means the offer to subscribe for the Convertible Notes in the accordance with this Prospectus, the Convertible Notes Trust Deed and the Conditions of Issue                                              |
| <b>Option</b>                                | means an option to acquire a Share in the Company on the Terms and Conditions of Options Issue.                                                                                                          |
| <b>Option Expiry Date</b>                    | means the date on which the Options expire, being 30 June 2019.                                                                                                                                          |
| <b>Prospectus</b>                            | means this Prospectus dated 26 May 2014.                                                                                                                                                                 |
| <b>Record Date</b>                           | means 7:00pm (Sydney time) on 2 June 2014, being the date to determine entitlements to Convertible Notes offered by this Prospectus.                                                                     |
| <b>Register</b>                              | means the register of holders of the Convertible Notes.                                                                                                                                                  |
| <b>Related Party (and Related Entity)</b>    | have the meanings as provided in the Corporations Act.                                                                                                                                                   |
| <b>Rights Issue</b>                          | means the issue of Convertible Notes pursuant to the offer contained in this Prospectus.                                                                                                                 |
| <b>Securities</b>                            | has the meaning as provided in the Listing Rules.                                                                                                                                                        |
| <b>Shareholder</b>                           | means the registered holder of Shares.                                                                                                                                                                   |
| <b>Share(s)</b>                              | means ordinary fully paid share(s) in the capital of the Company.                                                                                                                                        |
| <b>Share Registry</b>                        | means Computershare Investor Services Pty Limited ACN 078 279 277.                                                                                                                                       |
| <b>Subsidiary</b>                            | has the same meaning as in the Corporations Act.                                                                                                                                                         |
| <b>Terms and Conditions of Options Issue</b> | means the terms and conditions on which the Company will issue Options, as detailed in Annexure 3.                                                                                                       |
| <b>Timetable</b>                             | means the indicative timetable appearing on page 1 of this Prospectus.                                                                                                                                   |
| <b>Trustee</b>                               | means Australian Executor Trustees Limited ABN 84 007 869 794.                                                                                                                                           |
| <b>Underwriter</b>                           | means JM Financial Group Limited ACN 007 364 132.                                                                                                                                                        |
| <b>Underwriting Agreement</b>                | means the agreement dated on or about the date of this Prospectus between the Company and the Underwriter pursuant to which the Underwriter has agreed to underwrite the issue of the Convertible Notes. |

# Annexure 1 Conditions of Issue of Convertible Notes

## 1 Definitions

**ASX** means ASX Limited or, as the context requires, the financial market known as the Australian Securities Exchange operated by it.

**ASX Settlement** means ASX Settlement Pty Ltd, the body which administers the CHES system in Australia.

**ASX Settlement Operating Rules** means the settlement operating rules of ASX Settlement.

**Business Day** means a day on which Banks are open for business in Melbourne other than a Saturday, a Sunday or a public holiday.

**Change in Control Event** has the meaning given in Condition 5.

**Company** means Stokes Limited ABN 24 004 554 929.

**Conversion** means the conversion of a Note by exercise of the Conversion Right attached to the Note.

**Conversion Date** means the Quarterly Conversion Date after the Conversion Notice Date.

**Conversion Notice** means the notice in, or substantially in, the form of Annexure 2.

**Conversion Notice Date** means the date on which the Company receives a Conversion Notice from a Note Holder in accordance with Annexure 2.

**Conversion Rate** means the rate of Conversion of each Note into Shares on a 1 Note to 1 Share basis.

**Conversion Right** means the right to convert a Note to a Share in accordance with these conditions.

**Corporations Act** means the *Corporations Act 2001* (Cth).

**Default Rate** means 12.5% per annum.

**Interest Payment Date** means two Business Days after each of March 31, June 30, September 30 and December 31 in each year.

**Interest Period** means each period from:

- (a) the period from and including the Issue Date to and including the next occurring Interest Payment Date; and
- (b) each successive 3 month period ending on an Interest Payment Date; and
- (c) the period from and including the last Interest Payment Date to and including the Maturity Date or the Conversion Date applicable to the Notes (whichever occurs first).

**Interest Rate** means 10% per annum.

**Issue Date** means the date of issue of the Notes.

**Listing Rules** means the ASX Listing Rules.

**Maturity Date** means the earlier of:

- (a) 30 June 2017; or
- (b) any earlier date on which the Principal Amount of the Note is required to be repaid in full under these Conditions.

**Notes** means, at any time, convertible notes created and issued by the Company under these Conditions of Issue.

**Note Holder** or **holder of Notes** means, in relation to any of the Notes at any time, the person registered in the Register as the holder of those Notes.

**Option** means an option to acquire 1 Share in the capital of the Company for every two Notes converted to Shares subject to the Trust Deed and Terms of Option Issue.

**Principal Amount** means at any time in respect to a Note or Notes, the principal amount of \$0.35 per Note or the aggregate principal amount of Notes outstanding (as the context requires);

**Quarter** means each 3 month period ending on an Interest Payment Date;

**Quarterly Conversion Date** means any of March 31, June 30, September 30 and December 31 in any year.

**Shares** means fully paid ordinary shares in the capital of the Company.

**Terms of Option Issue** means the terms applying to each Option issued by the Company as detailed in the Prospectus.

**Trust Deed** means the trust deed dated on or about 26 May 2014 between the Company and the Trustee as amended from time to time.

**Trustee** means Australian Executor Trustees Limited ABN 84 007 869 794 or such other entity appointed as trustee pursuant to the Trust Deed from time to time.

## 2 General Terms of Issue

### 2.1 Terms of Issue

Each of the Notes shall:

- (a) have an issue price of \$0.35;
- (b) be paid for in full before issue;
- (c) bear interest on the basis set out in Condition 3;
- (d) unless Converted in accordance with these Conditions of Issue, entitles the Note Holder to receive from the Company the Principal Amount on the Maturity Date together with accrued interest; and
- (e) subject to Condition 4.3, convert in the manner and at the times provided by Condition 4 into Shares at the applicable Conversion Rate;
- (f) is not redeemable at the election of the Company; and
- (g) be quoted on ASX.

### 2.2 Status

- (a) The Notes:
  - (i) are unsecured;
  - (ii) confer contractual rights on the Note Holders as set out in these Conditions of Issue and the Trust Deed;

- (iii) do not (until Conversion) confer on Note Holders any right as a member or shareholder of the Company, including voting rights (unless the Corporations Act or the Listing Rules provide otherwise); and
  - (iv) confer on Note Holders a right to be given copies of all documents sent by the Company to shareholders (whether in connection with a general meeting of Shareholders or otherwise).
- (b) Each Note Holder by accepting an issue of Notes:
- (i) agrees to be bound by these Conditions of Issue and the provisions of the Trust Deed; and
  - (ii) acknowledges that it has contractual rights against the Company as set out in these Conditions of Issue but that the Notes do not (until Conversion) confer any right as a member of the Company.

### 3 Interest

- (a) The Notes will accrue interest daily at the Interest Rate.
- (b) Interest must be paid by the Company in arrears within 2 Business Days of each Interest Payment Date in respect of the preceding Interest Period. The Company may elect to defer payment of interest for the Interest Period ending on the first Interest Payment Date following the Issue Date until the next occurring Interest Payment Date at which time it must be paid in full together with all other interest then due and payable by the Company. Any such interest payment deferred will not itself attract interest.
- (c) If the Company does not pay interest on the Notes within the time set out in paragraph (a), interest will be payable at the Default Rate for the relevant Quarter, accruing daily until it is paid.
- (d) Interest ceases to be payable in respect of any Note from the date the Note is converted or the date on which the whole of the Principal Amount is repaid in accordance with these Conditions of Issue. Any interest outstanding at the applicable Conversion Date will be due and payable as a debt from the Company to the Note Holder.
- (e) If the Company becomes an externally administered body corporate (within the meaning of the Corporations Act) and notwithstanding any other provision of these Conditions of Issue, all interest on the Notes which would potentially be payable in the future on any future Interest Payment Date will immediately become due and payable.

### 4 Conversion

#### 4.1 Conversion Right

- (a) Each Note Holder has the right to elect to convert all or some only of the Notes early by giving written notice to the Company at any time. Any Notes the subject of early Conversion will be the subject of a Share issue by the Company at the Conversion Rate no later than 10 Business Days after the Quarterly Conversion Date following the Conversion Notice Date, at which time final payment of interest in respect of the Notes up to the Conversion Date must also be made.

- (b) Where a Note Holder elects to convert only part of its total holding of Notes, the Note Holder must convert at least 5,000 Notes or an integral multiple of 5,000 Notes.
- (c) The Company covenants with each Note Holder that it will issue Shares for the Notes in respect of which Note Holders have elected to exercise Conversion Rights, at the Conversion Rate on the relevant Conversion Date (as applicable).
- (d) Upon the exercise of a Conversion Right in respect of a Note, the Note Holder will be deemed to have applied for such number of Shares as will be issued upon the conversion of those Notes at the Conversion Rate.
- (e) All Shares issued upon conversion of Notes will rank in all respects equally with the then existing Shares of the Company and will rank for dividends declared or determined by the Company on its Shares after (but not before) the Conversion Date of the Notes.
- (f) At the same time as the issue of such Shares the Company must also:
  - (i) apply for quotation of such Shares on the ASX; and
  - (ii) issue the Note Holder with one option for every two Shares issued to the Note Holder upon Conversion in accordance with the Trust Deed and the Terms of Option Issue.

#### **4.2 No Right to participate in new issues of ordinary shares**

There are no participation rights or entitlements inherent in the Notes and the Note Holder will not be entitled to participate in new issues of capital offered to Shareholders until Conversion has taken place.

#### **4.3 Adjustment of Conversion Rate**

If the Company reorganises its capital, the Conversion Rate or the conversion price or both will be adjusted in accordance with the Listing Rules applicable at the time of the reorganisation, and so that Note Holders will not receive a benefit that holders of Shares do not receive. Unless the Listing Rules require otherwise, the Conversion Rate must be adjusted as follows:

- (a) **Reduction in capital:** If the issued capital of the Company is reduced, the entitlement of a Note Holder to convert its Notes to Shares at the Conversion Rate will be reduced in the same proportion and manner as the issued capital is so reduced (subject to any provisions with respect to the rounding of entitlements as may be sanctioned by the meeting of the members of the Company approving the reduction of capital) but in all other respects the Conversion Rights will remain unchanged;
- (b) **Consolidation of capital:** If the issued capital of the Company is consolidated, the entitlement of a Note Holder to convert its Notes to Shares at the Conversion Rate will be reduced in the same proportion and manner as the issued capital is so consolidated (subject to any provisions with respect to the rounding of entitlements as may be sanctioned by the meeting of the members of the Company approving the consolidation of capital) but in all other respects the Conversion Rights will remain unchanged; and
- (c) **Subdivision of Capital:** If the issued capital of the Company is subdivided, the entitlement of a Note Holder to convert its Notes to Shares at the Conversion Rate will be increased in the same proportion and manner as the issued capital is so subdivided (subject to any provisions with respect to the rounding of entitlements as may be sanctioned by the meeting of the members of the Company approving the subdivision of capital) but in all other respects the Conversion Rights will remain unchanged.

- (d) If the Company reorganises its capital so that the Conversion Rate or the conversion price or both are adjusted in accordance with this clause, the Company must advise the Trustee and the Note Holders of the adjustment.

#### **4.4 Pro rata issue**

If at any time prior to the earlier to occur of the Conversion, redemption or Maturity Date of the Convertible Notes the Company makes a pro rata offer (excluding a bonus issue) to shareholders, the Conversion Rate on Conversion of the Notes will be adjusted using the formula as follows:

$$NR = OR + \frac{E[P - (S+O)]}{N+1}$$

Where:

**NR** = the new Conversion Rate of the Notes.

**OR** = the old Conversion Rate of the Note prior to the pro rata offer.

**E** = the number of Shares into which one Note is convertible.

**P** = average market price per Share weighted by reference to volume of the underlying Shares during the 5 trading days ending on the day before the ex-rights date or ex entitlements date.

**S** = the subscription price of a Share under the pro rata issue.

**O** = the dividend due but not yet paid on the existing underlying Shares (except those to be issued under the pro rata issue).

**N** = the number of Shares with rights or entitlements that must be held to receive a right to one (1) new share.

#### **4.5 Bonus Issue**

If a bonus Share issue is made by the Company, then the number of Shares issued to each Note Holder on Conversion of a Note will be increased by the number of bonus Shares that a Note Holder would have received if the Note had been exercised prior to the record date for the bonus issue. No change will be made to the Conversion Rate.

#### **4.6 Costs of Conversion and listing**

Except as otherwise stated in these Conditions of Issue, the Company will pay the expenses (but excluding any taxes or stamp duties for which the holders of Shares would ordinarily be liable) of the issue of, and all expenses of obtaining quotation for, Shares issued on Conversion.

## 4.7 Conversion Right warranties

The Company must, whilst there are any Notes on issue:

- (a) **Listing:**
  - (i) maintain a listing for all the Shares on the ASX;
  - (ii) obtain and maintain a listing on the ASX for all the Shares issued on the exercise of any of the Conversion Rights;
  - (iii) obtain and maintain a listing for all the Shares issued on the exercise of any of the Conversion Rights on any other stock exchanges on which any other Shares are then listed; and
  - (iv) promptly give to the Note Holders notice of the delisting of the Shares (as a class) by the ASX, or any other stock exchange on which they are listed from time to time;
- (b) **Conversion to ordinary shares:** ensure that all Shares issued upon Conversion will be duly and validly issued, fully paid and registered in the name of the Note Holder.
- (c) **Consents:** use its best endeavours to obtain, as and when required, and having once obtained, maintain, all necessary governmental and regulatory consents to enable:
  - (i) the Company to allot and issue the Shares to be issued upon conversion of the Notes; and
  - (ii) the Company to make all payments required to be made by it in respect of the Notes.

## 4.8 Bound by Constitution

Each Note Holder acknowledges that on the issue of Shares on the exercise of the Conversion Right, the Note Holder will be bound by the Constitution of the Company in so far as it relates to Shares.

## 5 Takeover or Change of Control

In the event that:

- (a) a takeover bid within the meaning of the Corporations Act is made for the Shares and the bidder acquires a relevant interest in at least 50% of the Company's Shares and the bid is declared unconditional; or
  - (b) a court orders a meeting to be held in relation to a proposed scheme of arrangement in relation to the Company the effect of which is that a person will acquire a relevant interest in at least 90% of the Shares in the Company and the Company's shareholders pass the resolution by the requisite majorities,
- (each a "**Change in Control Event**"), then:
- (c) the Company will give to each Note Holder written notice (**Sale Notice**) of the Change in Control Event within five (5) Business Days of receiving notice of it; and
  - (d) the Note Holder must elect within seven (7) Business Days after receipt of the Sale Notice to either:
    - (i) convert all the Notes held by that Note Holder into Shares in accordance with Condition 4; or
    - (ii) require the Company to redeem all the Convertible Notes held by that Note Holder in accordance with Condition 6;
  - (e) If no election is made under Condition 5(d), within the time period specified in that clause, then the Company may in its discretion convert all the Notes held by that Note Holder and on conversion Interest will be paid in accordance with Condition 4;

## **6 Redemption**

### **6.1 Redemption on Maturity date**

The Company must redeem all the Notes on issue on the Maturity Date by paying the aggregate Principal Amount of those Notes plus any outstanding interest on those Notes as at such date.

### **6.2 No early redemption by Company**

The Company has no right to redeem the Notes prior to the Maturity Date.

### **6.3 Events of default**

The Company must redeem Notes for their Principal Amount upon receipt by the Company of a redemption notice given by the Trustee as a result of the exercise by the Trustee on behalf of the Holders of its rights in accordance with the Trust Deed.

The rights of the Trustee and each Holder to take action against the Company upon the occurrence of an Event of Default are subject to the restrictions set out in the Trust Deed.

## **7 Holding Statements**

A Holder is entitled to receive such statements of the holdings of the Notes of the Holder as the Company is required to give pursuant to the Corporations Act, the Listing Rules and the ASX Settlement Operating Rules

Except as ordered by a court of competent jurisdiction or as required by law, the Company:

- (a) may treat the registered holder of any Note as the absolute owner (notwithstanding any notice of ownership or writing on the Note or any notice of previous loss or theft or of any trust or any other interest);
- (b) is not required to obtain any proof of ownership and is not required to verify the identity of the registered holder; and
- (c) is not required to recognise or give effect to any legal or equitable interest in any Note not entered on the Register notwithstanding that the Company may have actual or constructive notice thereof.

## **8 Transfer of Notes**

### **8.1 Forms of transfer**

A Holder may transfer any Notes the Holder holds by:

- (a) a Proper ASTC Transfer or any other method of transferring or dealing in the Notes introduced by ASX or operated in accordance with the ASX Settlement Operating Rules or the Listing Rules and, in any such case, recognised under the Corporations Act; or
- (b) a written instrument of transfer in any usual form or in any other form approved by either the Directors or ASX, that is otherwise permitted by law.

### **8.2 Registration of transfer**

A transferor of any Notes remains the owner of such Notes transferred until the transfer is registered and the name of the transferee is entered in the Notes Register in respect of the Notes, and the transferee of the Notes on being entered on the Notes Register shall have all the rights and obligations which the transferor had and all the rights and obligations of a Holder under the Trust Deed and these Terms of Issue.

### 8.3 Transfers which are not Proper ASTC Transfers

The following provisions apply to instruments of transfer referred to in condition [8.1\(b\)](#):

- (a) unless the instrument of transfer is otherwise a sufficient transfer under the Corporations Act, the instrument must be signed by, or executed by or on behalf of:
  - (i) the transferor; and
  - (ii) if required by the Company, the transferee;
- (b) the instrument of transfer duly stamped will be left at the place where the Notes Register is kept; and
- (c) the instrument of transfer must be endorsed or accompanied by an instrument executed by the transferee to the effect that the transferee agrees to accept the Notes subject to the terms and conditions on which the transferor held them, to become a Note Holder and to be bound by the Trust Deed and these Conditions of Issue.

### 8.4 Directors to register transfers

Subject to conditions [8.3](#) and [8.5](#), for so long as the Notes Register is maintained by the Company, the Directors will not refuse to register or fail to register or give effect to a transfer of the Notes.

### 8.5 Refusal to register transfers other than Proper ASTC Transfer

- (a) The Directors may refuse to register any transfer of the Notes (other than a Proper ASTC Transfer) where the Listing Rules permit the Company to do so.
- (b) The Directors will refuse to register any transfer of the Notes (other than a Proper ASTC Transfer) where the Corporations Act Schedules or the Listing Rules require the Company to do so, or the transfer is in breach of the Listing Rules.

### 8.6 Notice of refusal to register

- (a) Where the Directors refuse to register a transfer of the Notes under condition [8.5](#), the Company will give written notice of the refusal and the reasons for the refusal to the transferee and the person who lodged the transfer, if not the transferee, within 5 Business Days after the date on which the transfer was lodged with the Company.
- (b) Failure by the Company to give notice under clause [8.6\(a\)](#) will not invalidate the refusal to register the transfer in any way.

### 8.7 Clearing systems

Notes or interests in Notes held through a Clearing System will be transferable only in accordance with the rules and regulations of that Clearing System.

The rules and regulations of that Clearing System prevail over this condition [8](#) with respect to those Notes, or interest in Notes, to the extent of any inconsistency.

### 8.8 Registrar

If the Company appoints a registrar to maintain the Notes Register in accordance with the Trust Deed, then the Company will procure the registrar to comply with the provisions of this condition [8](#) as if references to 'the Company' or 'the Directors' were references to 'the Registrar'.

## **9 Non-Redeemable**

The Notes are not redeemable in any circumstance at the option of the Company.

## **10 Payment to Note Holders**

- (a) Any interest shall be paid in accordance with the Trust Deed.
- (b) If several persons are entered in the Register as joint holders of any Notes then without prejudice to the last preceding Condition, the payment to any one of such persons for any moneys payable on or in respect of such Notes shall be as effective a discharge to the Company as if the person to whom payment is made were the sole registered holder of such Notes.
- (c) The Company shall be entitled to deduct and withhold from any payment to be made to a Note Holder, any amount which the Company is required to deduct or withhold in respect of such payment under any applicable taxation or other law.

## **11 Notices**

A notice given to a Note Holder pursuant to a provision of these Conditions of Issue must be given in accordance with the provisions of the Trust Deed. The notice will be deemed to have been delivered in accordance with the timings set out in the Trust Deed.

## **12 Variation of Conditions of Issue**

These Conditions of Issue may be amended, varied, modified or added to in accordance with the terms set out in the Trust Deed.

## **13 Trustees Power to Enforce**

Without limiting the rights and discretion of the Trustee under the Trust Deed, the Trustee may at its discretion and without further notice institute such proceedings in accordance with the Trust Deed against the Company as it may think fit to enforce any obligation, condition or provision binding on the Company under the Trust Deed and these Conditions of Issue.

## **14 Conditions of Issue Binding on Parties and Successors**

These Conditions of Issue and the provisions of the Trust Deed shall be binding on the Company, the Trustee and the Note Holders and all persons claiming through or under them respectively.

## **15 Jurisdiction**

These Conditions of Issue shall be governed by and construed in accordance with the laws of Victoria.

# Annexure 2 Conversion Notice

The Directors  
Stokes Limited

**Note Certificate No # dated [ #] and Conditions attached to the Certificate**

**I/ we**

\_\_\_\_\_  
**(Name of Note Holder)**

**Of**

\_\_\_\_\_  
**(Address of Note Holder)**

holding SRN/HIN number\_\_\_\_\_ hereby request conversion of  
\_\_\_\_\_ Convertible Notes into fully paid ordinary shares in the capital of  
Stokes Limited in accordance with Conditions of the Trust Deed dated 26 May 2014.

I note that while I can serve this Conversion Notice on the Company at any time, no shares will  
be issued to me until the Conversion Date (being the last date of the Quarter in which this  
Conversion Notice is received by the Company).

I/we agree to be bound by the constitution of Stokes Limited.

**Dated:**

Signature

.....  
Note Holder/Director/Sole Director

Name (please print)

.....

Signature

.....  
Note Holder/Director/Sole Director

Name (please print)

.....

# Annexure 3 Terms and Conditions of Options Issue

## 1 Definitions

**ASX** means ASX Limited or, as the context requires, the financial market known as the Australian Securities Exchange operated by it.

**ASX Settlement** means ASX Settlement Pty Ltd, the body which administers the CHES system in Australia.

**ASX Settlement Operating Rules** means the settlement operating rules of ASX Settlement.

**Business Day** means a day on which Banks are open for business in Melbourne other than a Saturday, a Sunday or a public holiday.

**Company** means Stokes Limited ABN 24 004 554 929.

**Conversion** means the conversion of a Note in accordance with Annexure 1.

**Conversion Notice** means the notice in, or substantially in, the form of Annexure 2.

**Corporations Act** means the *Corporations Act 2001* (Cth).

**Exercise Price** means, subject to clause 4 of these Terms and Conditions of Options Issue, \$0.35 per Option.

**Expiry Date** means 30 June 2019.

**Listing Rules** means the ASX Listing Rules.

**Note Holder** or **holder of Notes** means, in relation to any of the Notes at any time, the person registered in the Register as the holder of those Notes.

**Notes** means, at any time, convertible notes created and issued by the Company under the Conditions of Issue in Annexure 1.

**Option Holder** or **holder of Options** means, in relation to any of the Options at any time, the person registered in the register as the holder of those Options.

**Options** means, at any time, options over Shares granted by the Company under these Terms and Conditions of Options Issue.

**Shares** means fully paid ordinary shares in the capital of the Company.

## 2 General Terms

### 2.1 Option Terms

Each Option shall:

- (a) be issued for no additional consideration;
- (b) subject to clause 4 of these Terms and Conditions of Options Issue, have an exercise price of \$0.35 each;
- (c) entitles the Note Holder to be issued one Share upon exercise of the Option and payment of the Exercise Price; and
- (d) be transferable; and
- (e) will expire on 30 June 2019; and
- (f) not be quoted on ASX.

## 3 Options

### 3.1 Entitlement

- (a) Options will be granted to each holder of Notes who converts some or all of their Notes into Shares on the basis of 1 Option for every 2 Shares required to be issued by the Company upon the conversion of the Notes.
- (b) Each Option entitles the holder to subscribe for one Share upon exercise of the Option.
- (c) Subject to clause 4 of these Terms and Conditions of Options Issue, the amount payable upon exercise of each Option will be \$0.35 (**Exercise Price**).

### 3.2 Expiry Date

Each Option will expire at 5.00pm (EST) on 30 June 2019 (**Expiry Date**). An Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.

### 3.3 Exercise Period

The Options are exercisable at any time on or prior to the Expiry Date.

### 3.4 Notice of Exercise

The Options may be exercised during the Exercise Period by notice in writing to the Company in the manner specified on the Option certificate (**Notice of Exercise**) and payment of the Exercise Price for each Option being exercised in Australian currency by electronic funds transfer or other means of payment acceptable to the Company.

### 3.5 Exercise Date

A Notice of Exercise is only effective on and from the later of the date of receipt of the Notice of Exercise and the date of receipt of the payment of the Exercise Price for each Option being exercised in cleared funds (**Exercise Date**).

## 4 Issue and Allotment of Shares

### 4.1 Timing of Issue

Within 15 Business Days after the later of the following:

- (a) the Exercise Date; and
  - (b) when excluded information in respect to the Company (as defined in section 708A(7) of the Corporations Act) (if any) ceases to be excluded information,
- but in any case no later than 20 Business Days after the Exercise Date, the Company will:
- (c) allot and issue the number of Shares required under these Terms and Conditions of Options Issue in respect of the number of Options specified in the Notice of Exercise and for which cleared funds have been received by the Company;
  - (d) if required, give ASX a notice that complies with section 708A(5)(e) of the Corporations Act, or, if the Company is unable to issue such a notice, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors; and
  - (e) if admitted to the official list of ASX at the time, apply for official quotation on ASX of Shares issued pursuant to the exercise of the Options.

If a notice delivered under 4.1(d) for any reason is not effective to ensure that an offer for sale of the Shares does not require disclosure to investors, the Company must, no later than 20 Business Days after becoming aware of such notice being ineffective, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors.

#### **4.2 Ranking of Shares**

Shares issued on exercise of the Options rank equally with the then issued shares of the Company.

#### **4.3 Quotation of Shares**

If admitted to the official list of ASX at the time, application will be made by the Company to ASX for quotation of the Shares issued upon the exercise of the Options.

The Company will not apply for quotation of the Options.

#### **4.4 Adjustment of Conversion Rate**

The following rules apply in relation to the way each Option is treated if the Company reorganises its capital prior to the expiry of the Exercise Period. Unless the Listing Rules require otherwise at the time of the reorganisation:

- (a) in a consolidation of capital, the number of Options will be consolidated in the same ratio as the ordinary capital and the applicable exercise price will be amended in inverse proportion to that ratio;
- (b) in a sub-division of capital, the number of Options will be sub-divided in the same ratio as the ordinary capital and the applicable exercise price will be amended in inverse proportion to that ratio;
- (c) in a return of capital the number of Options will remain the same, and the applicable exercise price of each option will be reduced by the same amount as the amount returned in relation to each Ordinary Share;
- (d) in a reduction of capital by cancellation of paid up capital that is lost or not represented by available assets where no Ordinary Shares are cancelled the number of Options and the applicable exercise price will remain unaltered;
- (e) in a pro rata cancellation of capital, the number of Options must be reduced in the same ratio as the ordinary capital and the applicable exercise price of each Option will be amended in inverse proportion to that ratio; and
- (f) in any other case, the number of Options and/or the applicable exercise price will be reorganised so that the Optionholder will not have received a benefit that holders of ordinary Shares do not receive. This does not prevent a rounding up of the number of Ordinary Shares to be received on the exercise if the rounding up is approved at the shareholders meeting which approves the reorganisation.

#### 4.5 Pro rata issue

Subject to the Listing Rules, if at any time prior to the exercise of all Options the Company makes a pro rata offer to the holders of Ordinary Shares to subscribe for Ordinary Shares or other securities of the Company the applicable exercise price for the Options will be reduced according to the following formula:

$$NP = O - \frac{E[P-(S+D)]}{N + 1}$$

NP = the new Exercise Price of the Option;

O = the old exercise price of the Option which would apply but for this provision;

E = the number of Shares into which one Initial Option is exercisable

*(note, E is one unless the number has changed because of a bonus issue.)*

P = the average market price per Share (weighted by reference to the volume of the Shares during the five trading days ending on the day before the ex-rights date or ex entitlements date;

S = the subscription price for a Share under the pro rata issue;

D = the dividend due but not yet paid on the existing Shares (except those to be issued under the pro rata issue); and

N = the number of Shares with rights or entitlements that must be held to receive a right to one new security under the pro rata issue..

#### 4.6 Bonus Issue

Subject to the Listing Rules, if there is a Bonus Issue to the holders of Shares, the number of Shares over which each Option is exercisable (but without the Options being exercisable) will be increased by the number of Ordinary Shares which the holder would have received if the Option had been exercised before the record date for the Bonus Issue.

#### 4.7 Bound by Constitution

Each holder of Options acknowledges that on the issue of Shares on the exercise of the Option, the holder will be bound by the Constitution of the Company in so far as it relates to Shares.

### 5 Replacement of Option Certificates

- (a) If an Option Certificate becomes worn out or defaced, on production and delivery of that Option Certificate to the Company that Option Certificate may be cancelled and a new Option Certificate must be issued in place of the worn out or defaced Option Certificate within 3 Business Days of production of the relevant Option Certificate to the Company.
- (b) If a Certificate is lost or destroyed then subject to the Optionholder, at its expense, providing proof of that loss or destruction and an indemnity satisfactory to the Company (acting reasonably), a new Option Certificate will be given to the person entitled to that lost or destroyed Option Certificate within 3 Business Days of the Optionholder providing the evidence and indemnity required by this Condition.

## **6 Register**

- (a) The Company must establish and maintain a register and enter on the register the name and address of the Optionholder and the date of issue or transfer of the Options.
- (b) If any change of name and address of the Optionholder is notified in writing to the Company, the register must be altered accordingly.

## **7 Transfer of Options**

### **7.1 Forms of transfer**

A holder may transfer any Options held by:

- (a) a Proper ASTC Transfer or any other method of transferring or dealing in the Options introduced by ASX or operated in accordance with the ASX Settlement Operating Rules or the Listing Rules and, in any such case, recognised under the Corporations Act; or
- (b) a written instrument of transfer in any usual form or in any other form approved by either the Directors or ASX, that is otherwise permitted by law.

### **7.2 Registration of transfer**

A transferor of any Options remains the owner of such Options transferred until the transfer is registered and the name of the transferee is entered in the Register of option holders in respect of the Options, and the transferee of the Options on being entered on the register shall have all the rights and obligations which the transferor had and all the rights and obligations under these Terms and Conditions of Options Issue.

## **8 Jurisdiction**

These Terms and Conditions of Options Issue shall be governed by and construed in accordance with the laws of Victoria.

## Action by shareholders and instructions for completion of entitlement and acceptance form

Enclosed you will find the Entitlement and Acceptance Form (**Form**) on which you need to indicate what you wish to do with your Entitlement. You need to choose between:

- accepting your full Entitlement (refer Section 2.23).
- taking up only part of your Entitlement and allow the balance to lapse (refer Section 2.23).

### If you wish to take up all of your Entitlement

- Insert in Box A the number of Convertible Notes you wish to accept. This number should be the same as the number in the Box headed "ENTITLEMENT TO CONVERTIBLE NOTES ON A 1:4 BASIS".
- Insert in Box C the full amount of Application money payable (being the amount shown in the box headed "AMOUNT PAYABLE ON ACCEPTANCE AT AU\$0.35 PER CONVERTIBLE NOTE" rounded up to the nearest cent).
- Complete the Cheque Payment details in Box D or follow the instructions to pay by BPAY®.
- Complete the contact details in Box D.
- Forward your completed Form and your cheque to arrive at the Company, P.O. Box 168, Mitcham, Victoria 3132 no later than 5.00pm on 16 June 2014 or alternatively you can make payment via BPAY®

### If you wish to take up only part of your Entitlement and allow the balance to lapse and revert to the Underwriter

- Insert in Box A the number of Convertible Notes you wish to accept.
- Insert in Box C the full amount of Application money payable (being the number of Convertible Notes accepted multiplied by AU\$0.35 rounded up to the nearest cent).
- Complete the Cheque Payment details in Box D or follow the instructions below to pay by BPAY®.
- Complete the contact details in Box D.
- Forward your completed Form and your cheque or your BPAY® payment to arrive at the Company, P.O. Box 168, Mitcham, Victoria 3132 no later than 5.00pm on 16 June 2014 or alternatively you can make payment via BPAY®.

### Payment by Cheque

Cheques must be drawn in Australian currency on an Australian bank and made payable to "**Stokes Limited - Rights Issue Account**" and crossed "Not Negotiable". Shareholders are asked not to forward cash by mail. Receipts for payments will not be issued.

### Payment by BPAY®

You can only pay by BPAY® if you are the holder of an account with an Australian financial institution that supports BPAY® transactions. Please note that should you wish to pay by BPAY®:

- You do not need to submit the Entitlement and Acceptance Form**, but you are taken to have made the declarations in the Entitlement and Acceptance Form by making the BPAY® payment;

- (b) If you do not pay for your Entitlement in full, you are deemed to have taken up your Entitlement in part, being in respect of such whole number of Convertible Notes which is covered by the amount paid;
- (c) It is your responsibility to ensure that your BPAY® payment is received by Computershare Investor Services no later than 5:00pm on 16 June 2014. **Some financial institutions may implement earlier cut-off times with regards to electronic payment and you should therefore take this into account when making payment;** and
- (d) Any amount received which is at least \$1.00 greater than your final allocation of Convertible Notes will be refunded. No interest will be paid on any application monies received or refunded.

### **Important Notice**

If you decide not to take up all or any part of your Entitlement, it will lapse and you will not receive any benefit.