SPECIAL POSTAL BALLOT

DISCLOSURE STATEMENT

CO-OPERATIVES NATIONAL LAW

SECTIONS 248 & 359

NAME OF CO-OPERATIVE:

HASTINGS CO-OPERATIVE LIMITED

PROPOSAL:

Sale of supermarket businesses

DATE OF APPROVAL:

18	/	09	/	2024
DD		MM		YY

THIS DISCLOSURE STATEMENT IS VALID FOR A PERIOD OF 6 MONTHS FROM DATE OF APPROVAL FOR ISSUE WITHIN THE STATE OF NEW SOUTH WALES

REGISTRAR OF CO-OPERATIVES
NEW SOUTH WALES

DISCLOSURE STATEMENT

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DISCLOSURE STATEMENT

1. INTRODUCTION

1.1. Name of Co-operative

Hastings Co-operative Limited

(the co-operative)

1.2. Registered office

Level 1, 9-13 High Street, Wauchope NSW 2446

1.3. Explanation of this statement

Sections 249 and 359 of the *Co-operatives National Law* (CNL) and Section 3.20 of the *Co-operatives National Regulations* (CNR) require that the board of a co-operative conduct a special postal ballot of members to be able to sell a part of the undertaking of the co-operative that relates to its primary activities and the value of which represents 25% or more of the total book value of the undertaking.

1.4. Clarification on members and shareholders

While the co-operative generally refers to its members as “shareholders”, they are referred to as members throughout this disclosure statement. The right to vote in any co-operative attaches to membership and not shareholding. Furthermore, a member must be active to be eligible to vote (see Section 5 below).

It is also important to clarify that the co-operative’s “Co-op 100 members” are not members of the co-operative and are therefore not eligible to vote. They are simply members of the co-operative’s Co-op 100 loyalty program.

2. THE PROPOSAL

2.1 The directors of the co-operative put the following proposal to members by way of a special resolution:

That the co-operative sell its four IGA supermarket businesses at Wauchope, Timbertown, Sovereign Place and Port Macquarie.

2.2 Background to the proposal

Over the past few years, internal and external factors have contributed to Hastings Co-operative’s declining financial position. Resolving the issue of ongoing financial losses at Sovereign Place IGA + Liquor is fundamental to restoring the co-operative to financial stability.

Large losses and negative cashflow have been recorded since Sovereign Place IGA + Liquor was approved in 2017 and opened in November 2019. Cost of living pressures, intense competition, escalating costs and changing shopping habits have compounded the fact that losses relating to Sovereign Place IGA + Liquor were forecast for the term of the lease to 2029.

All options regarding Sovereign Place IGA + Liquor have been considered, including the sale, sub-leasing, re-negotiation of terms and even closing the store. It is not possible to close the store or terminate the lease without significant financial commitments and/or legal risks.

Operational and capital expenditure commitments over the next five years require difficult strategic decisions, including the sale of businesses. Business reforms are necessary to ensure we protect members' interests and achieve financial sustainability.

The board is firmly focussed on sound governance and maintaining member value. We have comprehensively reviewed the proposal from Ritchies Stores Pty Ltd (Ritchies) and unanimously agree that voting in favour of the sale is the best outcome for our staff, members and the community.

2.3 Reasons for the proposal

The proposal to sell the IGA supermarkets to Ritchies is in the best interests of:

- <u>the co-operative</u> as it restores financial stability and creates a platform for the co-operative to refocus on its core values and critical priorities
- <u>the members and community</u> because Ritchies are able to provide a superior supermarket offering with a better range of stock at more competitive prices than the co-operative is currently able to provide
- <u>the staff</u> as Ritchies have guaranteed all IGA employees an offer of employment at terms no less favourable than those currently offered by the co-operative.

2.4 Details of the proposal

The four supermarket businesses that are proposed for sale are:

- Wauchope IGA + Liquor – 42 Hastings Street, Wauchope
- Timbertown IGA + Liquor – 245 Oxley Highway, Wauchope
- Sovereign Place IGA + Liquor – 1/15 Chancellors Drive, Thrumster
- Port Macquarie IGA – 138 Gordon Street, Port Macquarie.

It is proposed that the four businesses be sold together to Ritchies in accordance with the Memorandum of Understanding (MoU) between the co-operative and Ritchies. Subject to usual due diligence adjustments, the price is $15 million (plus the value of stock at cost) for the four supermarkets and three liquor outlets.

The other key elements of the MoU are:

- The co-operative agrees to underwrite some of the Sovereign Place IGA + Liquor leasing costs over 10 years, up to, and capped at, $2.4 million
- All current co-operative IGA employees will receive an offer of employment with Ritchies on terms that are no less favourable than their current employment conditions, providing each employee's salary range is within reasonable industry rates
- All employees will retain their tenure of service and their entitlement to existing long service leave and sick leave
- Employees will be paid all other accrued and approved leave entitlements by the co-operative before commencing with Ritchies
- Ritchies will invite customers to join their loyalty program
- Settlement completed no later than 8 weeks from the contract of sale and lease arrangements for each premises
- The co-operative retains ownership of, and leases, Wauchope IGA + Liquor's land and buildings to Ritchies
- Ritchies takes on assignment of leases at Timbertown and Port Macquarie IGAs
- The co-operative's three liquor licences related to the IGAs transferred to Ritchies, pending approval from the relevant authority.

It is important to note that no land and buildings of the co-operative are proposed to be sold.

Ritchies is a privately owned company. No shareholder in the company is a director or employee of the co-operative, nor are they a relative of a director or employee of the co-operative or of the spouse or de facto partner of a director or employee of the co-operative.

The funds from the sale of the four businesses are expected to improve the net asset position of the co-operative from $10 million to $23 million, and they will allow the co-operative to retire debt and achieve financial sustainability.

2.5 Effects of the proposal

The effect of the passing of the special resolution will mean that, once the special resolution is registered by NSW Fair Trading, the board will move to sell the four supermarket businesses to Ritchies in accordance with the Memorandum of Understanding.

There will be no impact on the current fundamental services offered to members and our community. Ritchies intends to continue to operate the four supermarkets, and the co-operative intends to continue to operate its other retail businesses.

However, the current members and Co-op 100 benefits will no longer be available at the supermarkets. Ritchies comprehensive Community Benefits Program, Christmas Club and seniors' discounts will take their place.

2.6 Benefits of the proposal

The benefits of the proposal to the co-operative include:

- eliminating the losses accruing from the operations of the supermarkets and restoring financial stability
- creating an income stream from rental payments associated with the Wauchope IGA + Liquor
- enhancing the supermarket offering provided to the co-operative membership base.

2.7 Disadvantages of the proposal

The disadvantages of the proposal include:

- the loss of revenue streams from the businesses being sold
- the need to underwrite the lease costs of Sovereign Place IGA + Liquor capped at $2.4M over ten years
- the costs of this process.

2.8 Independent Expert Report

An Independent Expert Report on the proposal has also been provided to assist members with their consideration of the proposal. It provides a detailed and objective external assessment. Scott Newton of Shaw Gidley was approved by the Registrar to provide the report and it is attached as Annexure A. Mr Newton has consented to his report being included in the disclosure statement.

Mr Newton estimates the value of the business of the 4 supermarkets to be $12.8 million.

In conclusion, Mr Newton also states:

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Of all possible options either explored or available to the Board and Management of the Co-op, it is my opinion that the proposal to sell the supermarket businesses in accordance with the MOU provides the best result for the Co-op and its members. Whilst none of the options are overly palatable in the circumstances, I would recommend to members that they vote in favour of the proposed sale of the supermarket businesses to Ritchies.

2.9 Taxation effect of the proposal

Advice on the taxation implications of the proposal for the co-operative and its members has been provided by Northcorp Accountants. It is attached as Annexure B. Northcorp Accountants have also consented to their advice being included in this disclosure statement.

Members should, of course, seek their own professional taxation advice if they believe it necessary.

3. APPROVAL AND DISCLAIMER

On 18/09/2024, the Registrar approved this disclosure statement pursuant to Sections 248 and 359 of the CNL. Such approval and should not be interpreted as a comment on the merits of the proposal.

The Registrar accepts no responsibility for the contents of this disclosure statement.

4. LEGISLATIVE REQUIREMENTS

The CNL requires that the board of a co-operative conduct a special postal ballot of members to sell a part of the undertaking of the co-operative that relates to its primary activities and the value of which represents 25% or more of the total book value of the undertaking.

The information in this disclosure statement is to assist members with their decision whether to vote for or against the proposal and has been approved by the delegate of the Registrar for this purpose.

The disclosure statement must be sent to all members at least 28 days prior to the closing date of the special postal ballot. Instructions for how members can vote on this special resolution accompanies this disclosure statement.

Members must correctly vote before the closing date of the special postal ballot in order for their vote to be valid.

The resolution in the special postal ballot will be passed if a 75% majority of members casting formal votes vote in favour of the special resolution. However, the special resolution will not be effective until it is registered by the Registrar.

5. MEMBERS ELIGIBLE TO VOTE

Only active members are eligible to vote in this special postal ballot.

Rule 4 of the co-operative's rules requires that in order to maintain active membership of the co-operative a member must be:

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- *a member who is a retail member who purchases products or services to the value of at least **$1,000.00** during the financial year **or***
- *a member who, during the whole financial year, has placed on deposit with the co-operative for the purposes of working capital, an amount of at least $1,000.00 and who has made purchases of goods or services to the value of at least **$10.00** during the financial year **or***
- *a member who has been an active member of the co-op for 40 years or more and who has made purchases of goods or services to the value of at least **$10.00** during the financial year.*

If any member is unsure of his or her entitlement to vote, they should contact the co-operative at admin@hastingscoop.com.au or by telephone on 02 6588 8999 during the hours of 9am to 4pm Monday to Friday.

All members, whether active or inactive, at the time of distribution of the special postal ballot material, are entitled to receive the special postal ballot material. This is required by the CNL and ensures that all members of the co-operative are made aware of the proposal.

6. FINANCIAL POSITION OF THE CO-OPERATIVE

The four main financial statements from the audited financial report for the year ending 30 June 2023 are attached as Annexure C to this disclosure statement, and the unaudited Statement of Comprehensive Income and Balance Sheet for the year ending 30 June 2024 are Annexure D.

If any member would like a full copy of the audited financial report for the year ending 30 June 2023, they should contact the co-operative at admin@hastingscoop.com.au or by telephone on 02 6588 8999 during the hours of 9am to 4pm Monday to Friday.

6.1 The following is a summary of key balance sheet items of the co-operative for the years ended 30 June 2021, 30 June 2022, 30 June 2023 and 30 June 2024.

	30 June 2024 (unaudited management accounts)	30 June 2023 (audited)	30 June 2022 (audited)	30 June 2021 (audited)
	$'000	$'000	$'000	$'000
ASSETS				
Current Assets	**5,396**	**9,725**	**8,810**	**8,031**
Non-Current Assets	**35,989**	**38,842**	**44,692**	**38,657**
TOTAL ASSETS	**41,385**	**48,567**	**53,502**	**46,688**
LIABILITIES				
Current Liabilities	**8,899**	**10,347**	**18,541**	**10,755**
Non-Current Liabilities	**20,195**	**22,270**	**17,126**	**24,497**
Issued Capital	**1,102**	**1,134**	**1,174**	**1,257**
TOTAL LIABILITIES	**30,196**	**33,751**	**36,841**	**36,509**
NET ASSETS	**11,189**	**14,816**	**16,661**	**10,179**
EQUITY				
Reserves	**12,066**	**12,098**	**16,116**	**8,153**
Retained Profits/(Loss)	**(877)**	**2,718**	**545**	**2,026**
TOTAL EQUITY	**11,189**	**14,816**	**16,661**	**10,179**
Number of Members	**6,021**	**6,060**	**6,072**	**6,391**
Turnover	**98,505**	**107,126**	**110,186**	**100,029**
Profit/(Loss)	**(3,730)**	**(1,845)**	**(1,481)**	**(153)**

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6.2 Significant changes to the financial position of the co-operative since the financial statements for the financial year ending 30 June 2024.

There have been no significant changes to the financial position of the co-operative since 30 June 2024.

7 STATEMENT OF DIRECTORS' INTERESTS, COMPENSATION OR CONSIDERATION TO OFFICERS IN CONNECTION WITH THE PROPOSAL

8.1 There is no compensation, consideration, incentive, commission or other benefit which has been or will be paid or given to:

8.1.1 any officer or member of the co-operative,

8.1.2 any relative of an officer of the co-operative, or

8.1.3 any entity (whether incorporated or not) of which an officer of the co-operative, or relative of an officer of a co-operative, is a shareholder, member, officer, partner or beneficiary, in relation to the proposal and the promotion of the proposal.

8.2 The directors are not aware of any information that is within their knowledge and that has not previously been disclosed to the members, where that information is material to the making of a decision by a member whether or not to agree to the proposal.

8.3 The interests of the directors of the co-operative in the proposal, including any interests of the directors in any other organisation that may be concerned with the proposal are as follows:

Director	Value of shareholding in the co-operative
Gary Humphreys	$20.00
Robert Preston	$20.00
Louise Clark	$20.00
Rodney Barnaby	$20.00
Leesa Bauer	$20.00
Louise Eyres	$20.00
Nick de Groot	$20.00

8 LIST OF ANNEXURES

A. Independent Expert Report
B. Taxation Advice
C. 2023 Financial Report
D. June 2024 Management Accounts

9 RECOMMENDATION

The directors of the co-operative unanimously recommend that members vote in favour of the proposed special resolution.

The Registrar has directed that all information contained in this disclosure statement be furnished to all members of the co-operative.

FURTHER INVESTIGATION:
Each member is advised to make any investigations (including the obtaining of professional advice) which that person believes to be necessary to satisfy himself or herself about the contents of this documentation or the decision of whether or not to vote in favour of the proposal.

DISCLAIMER OF LIABILITY:

This disclosure statement has been approved by the Registrar for the purpose of section 248 of the CNL. This approval is not to be taken in any way as an indication that the disclosure statement sets out all the information that may be relevant to the proposal.

Approval does not relate in any way to the merits or otherwise of the co-operative's proposal. No responsibility as to the contents of the disclosure statement and attachments and annexures that form part of this document is to be taken by the Registrar, NSW Fair Trading or by any of its servants or agents.

The responsibility for ensuring that the CNL has been complied with in relation to the preparation of the disclosure statement lies with those issuing the statement. Persons making false or misleading statements in a disclosure statement may be liable for criminal penalties and expose themselves to civil liability to anyone who suffers loss as a consequence.

THIS STATEMENT IS SIGNED IN ACCORDANCE WITH A RESOLUTION OF THE DIRECTORS DATED 17 SEPTEMBER 2024.

....
Gary Humphreys

....
Robert Preston

....
Louise Clark

....
Rodney Barnaby

Leesa Bauer
....
Leesa Bauer

....
Louise Eyres

....
Nick de Groot

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Annexure A

4 September 2024

shaw | gidley
insolvency reconstruction

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Nick de Groot
CEO
Hastings Co-op Limited

Via Email: Nickd@hastingscoop.com.au

Dear Nick

RE: INDEPENDENT EXPERT'S REPORT ON DISPOSAL OF ASSETS UNDER s359 CNL ("the Report")

I refer to email correspondence from yourself dated 26 August 2024 seeking my consent to be engaged to undertake the above Report as part of a Disclosure Statement to be reviewed and agreed by NSW Fair Trading prior to its provision to and consideration by Members of the Hastings Co-op Limited ("the Co-op").

I confirmed my consent to act in this matter after obtaining approval from NSW Fair Trading to my appointment for the purposes of preparing the Report. Annexed to this Report and marked **"A"** is a copy of the signed Approval for my engagement by NSW Fair Trading.

I have been provided with a scope of works with respect to the Report and based on that scope, have set out my findings under the following headings:

1. Profile of the Hastings Co-op Limited
2. Valuation of the Businesses Being Sold
3. Assessment of Members' Best Interests
4. Advantages and Disadvantages to Members
5. Impact on Members' Rights
6. Evaluation of Alternatives
7. Conflict of Interest Identification
8. High-Level Taxation Implications
9. Additional Considerations

I note that my conclusions and recommendations detailed within this Report are provided based on my review, enquiry and investigations within the limited time frame available. Where necessary I have sought information/documentation from the Co-op and made enquiries of Mr Nick de Groot of the Co-op.

With respect to my experience, understanding and knowledge of the Co-op and the issues identified within the scope of works and addressed within the Report, I note that I am a Chartered Accountant, Registered Liquidator and Trustee in Bankruptcy with over 29 years experience in the Insolvency and Business Reconstruction industry. I have significant experience in advising individuals, businesses and major Banks on the financial position, viability and reconstruction of businesses as well as advising various parties on the purchase of distressed assets. In addition, I was a Director of the Co-op during the period 2012 to 2015. I have also on occasion been engaged by the Board of Directors of the Co-op to provide advice on a range of financial matters over the last 5 or so years.

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Annexed to this report and marked **"B"** is my brief curriculum vitae.

1. PROFILE OF THE HASTINGS CO-OP LIMITED

The Co-op is a co-operative established and regulated under the Co-operatives National Law (CNL) and the Co-operatives National Regulation. The regulatory authority for the Co-op is NSW Fair Trading.

The Co-op is guided by its Rules which set out the governance framework, basis and eligibility for membership, board composition, duties and powers, procedures for meetings and other important operational matters.

The Co-op is a retail co-operative with open membership; however, the Co-op has not routinely issued shares since 2014.

Equity membership of the Co-op entitles members to accumulated reward points when they spend at any of the Co-op's businesses other than the car hire business and the Bolwarra Service Station. Points are redeemable for vouchers which can be used to acquire goods from Co-op businesses.

Equity members are deemed "active" under the Rules when they spend $1,000 or more in each financial year. Equity members can only vote if they are active.

The Co-op currently has 6,021 equity members of which 3,515 were "active" at 30 June 2024 and are therefore eligible to vote with respect to the proposal for the sale of the supermarket businesses. The Co-op also operates a loyalty membership program called "Co-op 100" entitling members to some discounts and to the accumulation of reward points at a lesser rate to Equity members. Co-op 100 members have no voting power. There are currently more than 8,000 Co-op 100 members predominantly living across the Hastings Region.

2. VALUATION OF THE BUSINESSES BEING SOLD

I have been provided with a copy of a Memorandum of Understanding ("MOU") between the Co-op and Ritchies Stores Pty Ltd ("Ritchies") detailing an offer to purchase four ("4") of the Co-op's supermarkets, namely the Wauchope SUPA IGA + Liquor, Timbertown SUPA IGA + Liquor, Sovereign Place IGA + Liquor and the Port Macquarie IGA for $15M.

In the process of negotiating the terms of the MOU with Ritchies to sell the four IGA supermarkets and three liquor outlets the management of the Co-op prepared a detailed valuation of each of the business unit's as well as for the consolidated business. A copy of this valuation was provided to me as part of my review of the commerciality of the proposed sale and assessment of the value of the businesses being sold. As part of my engagement, I stress tested the assumptions within the valuation and confirmed figures relied upon for the purposes of the valuation.

Management used a Capitalisation of Earnings Method to determine the value of the businesses. This method applies an industry multiple to the Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) to determine a total value of the business. It is a simple and commonly used approach and one that I have used in previous engagements whereby I have had to value a trading business. Compared to other, more complex approaches it has the benefit of being easily calculated and is consistent with the approach commonly used in the market. The downsides of the method are that there is considerable subjectivity in the multiplier used, it does not consider any non-financial factors (such as the value of goodwill or brand) and does not take into account any future volatility in the earnings of the business other than through the choice of the multiplier.

As an approach to valuing the businesses I believe it is an acceptable and appropriate method and likely to provide as accurate a valuation as other methods which could have been employed, such as an asset-based valuation or a discounted cashflow analysis.

Management used an average of the last two years actual EBITDA results, together with a forecast of the 2024 financial years EBITDA, adjusting for factors such as the non-cash impact of applying accounting standards (for example AASB16 Accounting for Leases), head office cost allocations and notional lease costs. To this they have applied multiples of 4, 6 and 8. Lower multipliers suggest a more uncertain future, such as might result from shorter available lease terms, uncertain economic conditions, potential growth prospects and the prospects for the industry and greater economy in general. The current risk free rate of return in Australia would equate to a multiplier of approximately 23, whilst ASX listed companies would expect to have a multiplier of between 14 – 17. Small and medium enterprises would generally apply multipliers of 3 or 4 and below.

Largely as a result of the adverse forecasts for the Sovereign Place IGA + Liquor, the potential value of the group of supermarkets ranges from a worst case of $1.0M to a best case of $14.1M with management determining an estimated value of $10.6M by assigning multipliers to each business unit depending upon its profitability, future viability and security of tenure. This valuation figure is based on an EBITDA of approximately $1.2M per annum, which is consistent with historical trading figures for the supermarket businesses.

I have reviewed the valuation prepared by management and subject to my comments below can confirm that:

- The approach used by management is an acceptable approach to valuing supermarkets
- The data used in compiling the valuation is consistent with audited accounts and management accounts of the Co-op
- The multiples used, while subjective, are reasonable with businesses of this size generally having multiples of between 5 and 10 (capitalisation rate of between 10% to 20%)
- The valuation derived by management of $10.6M is reasonable in the circumstances.
- The negotiated consideration, subject to adjustments noted in the contract for sale, is more than the valuation of the supermarkets determined by management.

Having reviewed the management valuation and considered the multiples used, the profitability of the supermarkets, and the level of losses associated with the Sovereign Place IGA + Liquor, it is my opinion that the value of the combined businesses is in the order of $12.8M with the main difference between my assessment of value and that of management being the value ascribed to the Wauchope SUPA IGA + Liquor which, I have valued at $1,750,000 more than that reflected in managements valuation (I have applied a multiplier of 9 to this business). The valuation figure I have attributed to the business is still well below that proposed for the purchase of the supermarkets in the MOU. It is also my opinion that the valuation of the supermarket businesses would likely decrease materially over time as a result of the ongoing losses suffered by the Sovereign Place IGA + Liquor causing cashflow issues that adversely affect the trading operations of the other supermarkets.

3. ASSESSMENT OF MEMBERS' BEST INTERESTS

Overall, it is my assessment that selling the four supermarkets and three liquor outlets owned by the Co-op to Ritchies is in the best interests of members. A summary of specific advantages and disadvantages to members is set out at point 4 below however, in summary, the sale of the supermarket businesses is in the best interests of members and the Co-op for the following critical reasons:-

- The sale returns the Co-op to financial sustainability by releasing it from the commitment to the Sovereign Place IGA + Liquor lease. The Co-op has been enjoying a 50% rebate on the rental of the premise for the first five years. This rebate comes to an end in November 2024, at which point the rental will effectively double, meaning that the occupancy cost for the site will be well over 6% of sales revenue, in an industry where 3-4% is a benchmark. This business alone has consistently been losing approximately $1,000,000 per annum, even with the benefit of the discounted rental.
- Based on my review, revenue from the Sovereign Place IGA + Liquor appears to have stagnated at around $13,000,000 per annum and as such is unlikely to materially increase in the near future. As a result, the loss of the benefit of the rental rebate is likely to directly impact the business bottom line and result in annual losses from this operation increasing to approximately $1.4M-$1.5M.
- The Sovereign Place IGA is unlikely to achieve profitability in the first term of the lease (which ends in November 2029), meaning that future losses to the end of that initial lease term could equate to up to $7,000,000. Losses of this magnitude along with the Co-op's current financial position are likely to result in the Co-op being insolvent and having to consider formal insolvency procedures. Such a position would not only adversely impact the supermarket businesses but all of the Co-op's business units. Conversely, the sale of the supermarkets will improve the Co-op's net asset position but more importantly it will put an end to the trading losses and drain on cashflow available to manage, maintain and improve the balance of businesses within the Co-op.
- Operating a small group of supermarkets has become increasingly challenging due to the dominance of the large retail chains of Coles, Woolworths, and Aldi, which control the majority of the market. These giants benefit from economies of scale, allowing them to offer lower prices, a more extensive product range, and superior supply chain efficiencies that smaller operators struggle to match.
- Consumer expectations have also evolved, with shoppers demanding not just competitive prices, but also convenience, variety, and quality—areas where large chains excel due to their bargaining power, vast resources and network of stores. Furthermore, the significant investment required in technology, including online shopping platforms and sophisticated logistics, and the increasingly complex regulatory environment and high compliance costs further strain smaller players. Finally, the rise of e-commerce and the convenience of delivery services offered by larger chains has eroded the customer base of smaller supermarkets. Without the scale to compete on price, selection, and convenience, operating a single or small number of supermarkets in Australia is no longer a viable business model.

These factors, taken together, suggest that Ritchies will be much better placed to provide a superior shopping experience to its customers and Co-op members.

4. ADVANTAGES AND DISADVANTAGES TO MEMBERS

The key advantages to members of the proposal are:

- Stemming the flow of losses incurred by the Co-op and therefore the ongoing erosion of value of their interest in the Co-op. Based on current profit and loss and cashflow projections the Co-op will not be in a position financially to sustain itself beyond the 2024 calendar year and the Board has flagged the strong possibility that they would have an obligation to consider voluntary administration if the proposal was not successful.

- The sale of the supermarkets would eliminate the need to invest more capital in the supermarkets, allowing the Co-op to focus on the businesses and assets it continues to operate.
- If Ritchies take over the supermarkets it is reasonable to assume that they will improve the experience (including the customer service levels, stock holdings and product range) and importantly pricing for customers, a large number of whom are also members.

The key disadvantages to members of the proposal are:

- The loss of direct ownership of the supermarket and liquor businesses, and therefore control of the direction of these businesses to the extent that membership provided that control, and the loss of any future earnings that might have been generated were ownership retained. This disadvantage extends to a lack of control over the future direction of the supermarkets when they are controlled by Ritchies.
- The reduced ability to accumulate reward points and therefore receive vouchers which are redeemable at Co-op businesses.

5. IMPACT ON MEMBERS' RIGHTS

The sale of the IGA supermarkets has no direct effect on the rights of members, who will continue to be members of the Co-op. The "active member" test of the Co-op requires that members spend $1,000 or more with Co-op owned businesses, which will be significantly more difficult if the supermarkets are sold. The Board has indicated that, if members vote in favour of the proposal, a change to the Co-op's rules will be required to ensure active membership is achievable. Considering that the businesses proposed to be sold have an annual combined turnover of approximately $70M, there would be an immediate need for the active member spend limit to reflect the loss of these businesses from the Co-op group.

The potential for members to receive redeemable vouchers by earning points when spending at Co-op outlets will be significantly curtailed by the sale of the businesses however Ritchies have indicated that there will be a range of benefits available to members in the form of cheaper pricing, more stock availability and range and specific discounts offered to Co-op members which, if provided, should, for the most part, be of more overall value to members when compared with current offerings.

6. EVALUATION OF ALTERNATIVES

Over the last few years, the Board of Directors of the Co-op have explored a number of alternatives to selling the four supermarkets to Ritchies.

(a) Renegotiating terms on the lease of the Sovereign Place IGA + Liquor

The Board and Management of the Co-op have, on a number of occasions, approached the landlord of the Sovereign Place IGA + Liquor, Lewis Land Group ("LLG"), seeking to renegotiate the lease. While some concessions have been made by LLG (including allowing the Co-op to surrender a second leasehold in the centre without penalty) it has not been possible to renegotiate the lease in a way which would alleviate the financial burden of the losses being incurred by the Sovereign Place IGA + Liquor. As such this burden will continue to adversely affect the financial position of the Co-op more broadly until at least November 2029. Further, this financial burden will increase from November 2024 when the rental rebate on the site comes to an end.

(b) Surrender, assign or sub-lease the Sovereign Place IGA + Liquor site

The Board and Management of the Co-op have approached other potential operators with a view to assigning the lease or sub-leasing the supermarket without success. This is not surprising considering the trading figures and level of losses suffered by this business. In my opinion, this is simply not a viable option for consideration.

Whilst ceasing to trade and surrendering the lease would stem the flow of losses from trading, the Co-op would still be liable for rent for the balance of the lease term, and as such would still suffer a loss. In addition to this however, as the Sovereign Place IGA + Liquor is the anchor tenant at the shopping centre, ceasing to trade could reduce foot traffic through the shopping centre and cause damage to and loss of tenancy at the centre of other tenants. This could expose the Co-op to a damages claim by LLG as a result of the Co-ops breach of lease by ceasing to trade. The potential for a significant claim against the Co-op and the cost of defending such a claim would likely result in the insolvency of the Co-op and put its viability and existence at risk. As a result, this, in my opinion is not a viable option and definitely not in the best interests of members and the Co-op.

(c) Sale of other (individual) supermarkets or other businesses

While the sale of other businesses, and especially of the Wauchope SUPA IGA + Liquor leasehold business, would be possible and would provide significant value, such a sale would materially adversely impact the future revenue and profitability of the Co-op without releasing the Co-op from the ongoing commitment to the Sovereign Place IGA + Liquor lease, which is the major cause of the Co-op's current precarious financial position.

Further, the majority of the sale proceeds would be utilised in retiring Bank debt meaning that only a portion would be available to fund losses. This is likely to simply delay the timing of the insolvency of the Co-op, rather than correct the issue.

It was considered, and in my opinion rightly, that this would not be in the best interests of the Co-op or its members. Any sale of supermarkets must incorporate a sale of the Sovereign Place IGA + Liquor to ensure the future viability of the Co-op.

(d) Sale of other physical assets such as property assets

The Board and Management of the Co-op considered the sale of other physical assets to release funds which could be used to cover operational and capital expenditure commitments over the remaining life of the Sovereign Place IGA + Liquor. In October 2023, a members meeting was held at which it was proposed that a potential solution to the financial challenges of the Co-op could be the sale and lease back of the Wauchope IGA + Liquor and the sale of the Cedar Service Station.

Ultimately this proposal was rejected on the basis that it was unpopular with members, would not yield the consideration necessary for the long term financial stability of the Co-op, and most of the consideration would need to be used to pay down corporate debt which was secured against the property of the Co-op and in particular the Wauchope IGA + Liquor site. Hence these funds would not be available to fund the future losses of the Sovereign Place IGA + Liquor over the balance of its initial lease term. In addition, a decision to sell two (2) profitable businesses for the sole purpose of filling in a funding gap caused by another business without rectifying the issue associated with the failing business, would not be in members or the Co-op's best interests.

(e) Trading through

Management have extensively forecast the profit and loss and cashflows of the Co-op were it to continue trading without any structural change or retirement of assets and it was determined that the Co-op was not sustainable over the life of the Sovereign Place lease and significant member value would be eroded. I have reviewed and prepared figures with respect to the Co-op continuing to trade the Sovereign Place IGA + Liquor as is for the balance of the lease term, and in my opinion, the Co-op will not be in a position to fund the expected losses and as such to consider such a position would put the entirety of the Co-op businesses and assets at risk and as a result, is not in members best interests.

(f) Appointing a Voluntary Administrator or wind up

The Board considered that with progressive erosion in member value over the next five years it might be in the immediate interests of members to wind up the Co-op. The problem with this position is that a winding up or liquidation of the Co-op would be unlikely to change that situation and would in fact exacerbate the issue. Liquidators would seek to divest the various business and property assets and, especially in the case of the Sovereign Place IGA + Liquor, be forced to accept “fire sale” consideration. The more likely position, however, is that a sale of the Sovereign Place IGA + Liquor business would simply not be achievable, and that any Liquidator would simply close that business’s doors upon appointment and disclaim the lease.

This would result in LLG having a claim for liquidated damages against the Co-op for the balance of the lease term, which would be required to be paid on the basis that other asset sales were sufficient to pay out all creditors meaning that the Co-op was in no better a position. In fact, it is likely that the Co-op (and by default members) could be in a far worse position as LLG could raise a further damages claim if other tenants at the shopping centre were forced to close their doors due to the loss of the anchor tenant.

Further sale campaigns for the balance of the Co-op’s businesses and assets by a Liquidator may not result in the highest possible price being obtained due to a market perception that the sales were distressed asset sales and hence offers for the businesses and assets were priced accordingly, resulting in a reduced return to members. Whilst the sale of all assets would result in surplus funds being available for a return to members, it would also in effect mean the end of the Co-op all together. Such a decision would result in there being no future benefit to members of the Co-op. As a result, in my opinion, this would not be in members best interests.

The Board considered that they have been appointed to deliver on the objectives (and principles) of the Co-op, not to simply consider the best financial outcome of the individual member investors. For this reason, winding the Co-op up was not considered an acceptable option, but rather an end consequence of failure.

An alternative would be to appoint a Voluntary Administrator to trade on the businesses with a view to a sale of them as a going concern and subsequently control of the Co-op reverting back to its Board. As commented on above within this report, to correct the financial issue faced by the Co-op means divesting itself of the Sovereign Hills IGA + Liquor business. Clearly the best way to do this is by way of a sale of that business as a going concern. What is also abundantly clear is that based on its trading figures, no-one would purchase this business as a stand-alone business (they risk the same financial issues that the Co-op currently is faced with) and as such the only way to sell that business would be to package it up with other similar businesses, which the Board of the Co-op have already commenced. To look to do this by way of an appointment of a Voluntary Administrator simply incorporates an additional material cost, in the form of Voluntary Administrators fees, that do not need to be incurred to achieve the desired outcome. It would remain a reality however, if member approval for the proposed sale of the supermarket businesses could not be obtained.

7. CONFLICT OF INTEREST IDENTIFICATION

To the best of my knowledge no member of the Co-op Board, or Senior Management Team stands to gain any financial consideration or benefit, or has any conflict of interest, outside of an indirect superannuation related interest, with respect to the proposal to sell the IGA Supermarkets and liquor outlets to Ritchies. Annexed to this report and marked **"C"** is a document setting out the directors' professional roles and directorships.

The minutes of all board meetings note each director's declaration that they have had no conflict with respect to this transaction.

8. HIGH-LEVEL TAXATION IMPLICATIONS

Northcorp Accountants, who are the tax advisor for the Co-op, have prepared detailed taxation advice regarding the likely taxation implications of the proposed transaction. I am not a qualified tax adviser and as such I am not in a position to comment on this side of the proposed transaction.

9. ADDITIONAL CONSIDERATIONS

One question that remains is the future of the Co-op should the proposal succeed. In November 2023 the Co-op released a corporate strategy that focuses on bringing benefit to members, expanding the membership base and building relationships and partnerships. Should this proposal be approved by members the Co-op will continue to have the benefit of owning the bulk fuel distribution business, two service stations, a Bottle-O and a car hire business, and be invested in a number of commercial properties which will provide considerable rental income for the benefit of the Co-op and its members moving forward.

It is clear that should the status quo remain with respect to trading for the Co-op businesses, that in the short to medium term, it will run out of cash-flow and as a result, become insolvent. To avoid this, it is critical that the cause of this cash and profit drain be dealt with. Of all possible options either explored or available to the Board and Management of the Co-op, it is my opinion that the proposal to sell the supermarket businesses in accordance with the MOU provides the best result for the Co-op and its members. Whilst none of the options are overly palatable in the circumstances, I would recommend to members that they vote in favour of the proposed sale of the supermarket businesses to Ritchies.

Yours faithfully
Shaw Gidley Port Macquarie

Scott Newton
Director

"A"

CO-OPERATIVES NATIONAL LAW (NSW)
Section 248(4)

Hastings Co-operative Limited - NSWC00022

APPROVAL

I, Diane Duggan, Senior Coordinator, pursuant to section 248(4) of the Co-operatives National Law (NSW)(CNL), approve Scott Newton of Shaw Gidley Insolvency and Reconstruction as an independent person to provide a report in relation to the proposal to dispose of assets under section 359 of the CNL.

Diane Duggan
Senior Co-ordinator, Business Operations
Registry and Regulatory Schemes
Delegate of the Registrar of Co-operatives
26 August 2024

REGISTRAR OF CO-OPERATIVES
NEW SOUTH WALES

"B"

Curriculum Vitae

Name:	Scott Anthony Newton
Address:	Suite 1, Level 1, 65 Lord Street, Port Macquarie NSW
Telephone:	02 6580 0400
Mobile Ph:	0414 605 269
Email:	snewton@shawgidley.com.au

Personal Information

Date of Birth:	27 July 1973
Place of Birth:	Lismore
Citizenship:	Australian
Gender:	Male

Career History

- 2009 – Present - Principal Shaw Gidley Insolvency and Reconstruction Port Macquarie
- April 2021 – December 2021 - Interim CEO, Community Resources Limited
- 2007 – 2009 – Partner, Ferrier Hodgson Newcastle
- 1995 – 2006 – Intermediate to Senior Manager, Ferrier Hodgson Newcastle

Academic Qualifications

- Institute of Chartered Accountants, Professional Year Programme – 13 February 2002
- Advanced Insolvency Law & Practice Post Graduate Programme - USQ – 4 August 1997
- Bachelor of Commerce - University of Newcastle – Graduated 14 April 1996

Professional Qualifications

- Member of the Australian Restructuring Insolvency and Turnaround Association – 20 August 2002
- Member of Chartered Accountants Australia and New Zealand – 13 February 2002
- Certificate of Public Practice – 30 November 2006

Professional Registrations

- Registered Liquidator – 11 December 2006
- Official/Court Liquidator – 2 March 2009
- Registered Trustee in Bankruptcy – 17 January 2011

Other

- Justice of the Peace - 6 June 2001
- Director – Hastings Co-operative Limited – 21 November 2012 – 21 November 2015
- Treasurer – Port Macquarie Junior Cricket Club – 2014 – 2018
- Treasurer – Hastings District Junior Cricket Association – 2014 – 2019
- Mid North Coast Representative – Hunter Regional Advisory Committee – Westpac Rescue Helicopter Service – 2019 to Present

"C"

Hastings Co-op

DISCLOSURE OF CONFLICTS OF INTEREST
August 2024

	DIRECTOR	DISCLOSURE OF INTERESTS
1.	Rod Barnaby	• Engaged under contract with the Hastings Co-op to provide advice regarding the AMPOL agreement and other Energy Division related matters • Regional Director, Business NSW
2.	Gary Humphreys	• Chair & non-executive director, PNL group (P&N Bank and BCU Bank) and Beyond Bank, the merged entity, from June 2025. • Chair & non-executive director, P&N Bank • Chair & non-executive director, Garden Village Port Macquarie • Non-executive director, CanAssist NSW • Governing Board Member, Mid North Coast Local Health District (part of NSW Ministry of Health) • Board member Local Land Services, and Member Finance, Risk and Audit Committee • Audit and Risk Committee Member, Regional NSW
2.	Robert Preston	Nil
3.	Louise Clarke	• Non-executive director, P&N Bank • Non-executive director, Centacare New England North West • Non-executive director, Rural Assistance Authority
4.	Nick De Groot	• Non-executive director, The Co-op Federation
5.	Louise Eyres	• Non-Executive Director, VicSport • Advisory Board Member, Jane's Weather AgTech. • Non-Executive Director, Afford (Australian Foundation for Disability headquartered in Sydney) • Non-Executive Director, Garden Village Port Macquarie
6.	Leesa Bauer	• Non-executive director, Armidale Centacare New England North West Limited • Non-executive director, Evergreen Life Care Limited • Company Director, DBD Enterprises PTY LTD

Annexure B

NorthCorp
accountants + financial services

PARTNERS
Paul Fahey B Bus CA
Bart Lawler B Com CA
Patrick Brennan B Com CA
Alison McKinnon B Bus CA

9 August 2024

Nicholas de Groot
Chief Executive Officer
Hastings Co-operative Pty Ltd
Level 1
9 – 13 High Steet
Wauchope NSW 2446

Dear Nick

Sale of the Hastings Co-operative Ltd IGA Business

Introduction

The purpose of this letter is to outline the expected tax treatment of the sale of the IGA Business (IGA Sale) by the Hastings Co-operative Ltd (HCL). This letter has been prepared for inclusion in the Disclosure Statement to be provided to members in relation to the sale.

This letter constitutes general taxation advice regarding the specific transaction outlined below. It should not be construed as tax advice applicable to any individual, entity or transaction, which is not detailed within the letter.

This letter should not be taken to be financial advice in respect of the sale of HCL assets.

This letter has been prepared at a time in the sale process where full details are not available, and estimates have been required.

Transactions

1) HCL proposes to sell the following IGA businesses under one sale agreement
    a. Wauchope SUPA IGA plus Liquor
    b. Timbertown SUPA IGA plus Liquor
    c. Sovereign Place IGA plus Liquor
    d. Port Macquarie IGA

    The sale price is $15,000,000 plus stock at value.
    The sale includes the IGA business (Goodwill) and plant and equipment.

2) Sovereign Place Rental Subsidy
    a. The purchaser seeks a 10-year rental subsidy arrangement whereby HCL may be required to subsidise the rent payable by the purchaser in respect of the Sovereign Place site. The arrangement is variable and is based on the site achieving certain turnover levels. The maximum amount of the subsidy over the 10-year period is $2,400,000.

At the time of preparing this report,

a) There is no proposed allocation of the sale price between goodwill and plant and equipment.
b) The market value of stock on hand is unknown.
c) To enable the preparation of this report, the following estimates have been made by management
    a. Sale price attributable to Goodwill $10,000,000
    b. Cost base of Goodwill $264,000
    c. Sale price attributable to Plant and Equipment $5,000,000
    d. Taxation value of Plant and Equipment $1,750,000
    e. Trading Stock on Hand at Market Value $2,650,000 (allowing for stock obsolescence and losses).
    f. Cost of Stock on Hand $2,800,000
    g. No allowance has been made for costs associated with the transaction.
    h. No allowance has been made for normal settlement adjustments such as employee leave entitlements etc
    i.

Income Tax Implications – HCL

1 Capital Gains Tax

General

The sale of business goodwill is regarded as the sale of a capital asset and subject to capital gains tax.

HCL is a company and therefore it is not entitled to any general 50% exemption on the capital gain made. (ITAA97 s 115.10)

HCL will not be entitled to any of the Small Business CGT Concessions. It will not qualify as a small business due to having a turnover greater than $2,000,000 and its net asset value will exceed the $6,000,000 net asset test. (ITAA97 s 152.10)

Tax Implication – Goodwill

HCL will be assessed on the net capital gain incurred during the tax year. Using the estimates stated the net capital gain in respect of the sale of IGA goodwill will be $10,000,000 less $264,000 or $9,730,000 – taxed at 30% company tax rate resulting in $2,920,000 in tax.

Expected tax on Goodwill - $2,920,000.

2 Assessable Ordinary Income

Assessable Balancing Charge - Sale of Plant and Equipment.

General

The sale of depreciable plant and equipment does not result in a capital gain. (ITAA97 s 118.24) The Income Tax Assessment Act 1997 (ITAA97) will tax the difference between the proceeds received (net of GST) and the taxable value (adjustable value) of the plant as assessable income. (ITAA97 s 40.285)

In recent years the ITAA97 s328-180 has allowed businesses to immediately claim a deduction for the purchase price of plant and equipment. Therefore, many of the new acquisitions of plant and equipment have a taxable written down value of $0. As a result, the proceeds received in relation to these items of plant will be fully assessable.

Tax Implication - Plant and Equipment

The sale of depreciable plant and equipment will create assessable income for HCL. The amount of assessable income is determined by deducting the taxable written down value of the plant from the proceeds received.

Using the estimates provided the sale of plant and equipment will generate assessable income of $5,000,000 less $1,750,000 or $3,250,000 - taxed at 30% company tax rate resulting in $975,000 in tax.

Expected tax on disposal of Plant and Equipment - $975,000.

Assessable Income – Sale of Stock

General

Sale of trading stock you hold does not create a capital gain. (ITAA97 s 118.25)

The sale of stock will create assessable ordinary income. The amount of assessable income will be the difference between the Market Value for the stock and the taxation value of the stock sold (purchases plus stock value). (ITAA97 s 70.90)

The taxation act applies market value rules for the sale of stock when the sale is other than in the ordinary course of business. (ITAA97 s 70.90)

Tax Implications - Sale of Stock on Hand at Valuation

Using the estimates provided, the sale of stock will generate a taxable loss of $2,650,000 less $2,800,000 or $150,000 loss – a tax benefit at 30% company tax rate of $45,000.

Expected tax benefit arising from the loss of stock on hand - $45,000.

IGA Sale - Summary of the tax effects of the sale transactions before operating losses

Expected tax on Goodwill - $2,920,000
Expected tax on disposal of Plant and Equipment - $975,000.
Total tax payable $3,895,000
Less tax benefit
Expected tax benefit arising from the loss of stock on hand - $45,000.

Net Tax Estimate in relation to the sale items - $3,850,000.

3 Taxation Losses

Tax benefit associated with prior year and current year tax losses

The tax losses of a company can be carried forward to be offset against the current year's taxable income if the company can satisfy either the Continuity of Ownership Test or the Continuity of Business Test. (ITAA97 Subdivision 165-D and 165-E)

For this document, it is assumed that HCL will be able to utilize its prior year losses applying them against the taxable income arising from the IGA sale. A more detailed assessment will be required to determine if HCL satisfies the carry forward conditions. This requires an evaluation in respect of each year's loss.

Tax Loss Listing

The HCL 2023 income tax return recorded losses carried forward of $3,570,000

The HCL 2024 expected loss from operations is $3,700,000

The HCL 2025 expected loss from operations (excluding the transactions associated with this sale) is expected to be $2,100,000.

The total expected carried forward losses and 2025 year operating losses are $9,370,000

The taxation benefit associated with these losses at 30% is $2,810,000

Application of the taxation benefit associated with the losses to the tax payable generated by the IGA sale.

Expected taxable income arising from the IGA Sale $12,830,000

Expected taxation losses available $9,370,000

Estimated taxable income for 2025 after application of tax losses $3,460,000

Tax payable after application of tax losses at 30% $1,040,000

4 Taxation Implication – Rental Subsidy.

The IGA Sale proposes an agreement that will, if the conditions are met, cause HCL to contribute to the Sovereign Hills rent payable by the purchaser.

The rent contribution must be calculated each year for a period of ten years. There is a maximum rent contribution exposure of $2,400,000.

At the time of preparing the report the amount of each year's rental contribution is unknown.

The rental contribution paid by the co-operative is expected to be treated as a capital payment in consequence of the termination of the lease. Such a payment is covered by ITAA97 section 25-110 which allows a 20% deduction in the year of payment and further 20% deductions in each of the next 4 years. As an example, a $100,000 rental contribution by HCL would be allowable as a tax deduction, $20,000 in the year of expenditure and then $20,000 in each of the following 4 tax years.

Goods and Services Tax (GST) – HCL GST Implications

General

A supply made by an entity registered for GST or required to be registered for GST will be a taxable supply and the supplier will need to add 10% to the transaction value.

A supply that would otherwise be taxable will be a GST-Free supply if it can be defined as a *GST-Free sale of a going concern*.

Section 38.325 of A New Tax System (Goods and Services Tax) Act 1999 ("the GST Act") outlines the conditions in the subsections below.

1) *The supply of a going concern is GST-free if:*
   - *a) the supply is for consideration; and*
   - *b) the recipient is registered or required to be registered; and*
   - *c) the supplier and the recipient have agreed in writing that the supply is of a going concern.*
2) *A supply of a going concern is a supply under an arrangement under which:*
   - *a) the supplier supplies to the recipient all of the things that are necessary for the continued operation of an enterprise; and*
   - *b) the supplier carries on, or will carry on, the enterprise until the day of the supply (whether or not as a part of a larger enterprise carried on by the supplier).*

GST on the HCL IGA Transaction

HCL proposes to sell four operational IGA stores. The IGA sale Memorandum of Understanding (MOU) executed by HCL and the purchaser states "*The sale and purchase must satisfy all ATO approved criteria for the purchase of a business as a going concern*".

If both parties comply with this term of the MOU, then the sale will be GST-Free. No GST will form part of the sale price, and no GST will be payable.

It should be noted that if HCL and/or the purchaser fail to achieve the requirements of Section 38.325 of the GST Act, then HCL will be required to remit one eleven ($1/11^{th}$) of the proceeds received for the sale to the ATO as GST. The assessment of compliance with the going concern conditions could be made under ATO review several years after the completion of the transaction. The drafting of the final contract should allow HCL to recover the GST from the purchaser should the transaction fail as a "sale of a going concern".

GST Result – Supply of a Going Concern – GST Free.

Taxation Implications - HCL Members

HCL is a company. A company must lodge its own tax return and satisfy its own tax liabilities.

HCL does not intend to distribute any income arising from the IGA Sale to members. There will be no direct tax implication for the members arising from the IGA Sale transactions described above.

Independence Statement

NorthCorp Accountants has been engaged by HCL for the provision of tax advice in relation to the disclosure statement. NorthCorp Accountants is not independent as our firm provides other services to HCL. We have the necessary qualifications and experience to provide this general advice.

Yours faithfully
NorthCorp Accountants

Paul Fahey

Annexure C

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2023

	Note	2023 $'000	2022 $'000
PROFIT FROM CONTINUING OPERATIONS			
Revenue from contracts with customers	2	**107,126**	110,186
Cost of sales	3	**(87,379)**	(90,882)
Gross profit		**19,747**	19,304
Other operating income	2	**3,012**	3,673
Bad and doubtful debts expense	3	**(10)**	(13)
Depreciation and amortisation expense	3	**(2,600)**	(2,581)
Employee benefits expense		**(13,007)**	(13,371)
Finance costs	3	**(1,274)**	(1,133)
Other expenses		**(7,652)**	(7,499)
Profit / (loss) before income tax		**(1,784)**	(1,620)
Income tax (expense) / benefit	4	**(61)**	139
Profit / (loss) for the year		**(1,845)**	(1,481)
Profit / (loss) attributable to members of the Co-operative		**(1,845)**	(1,481)
Other comprehensive income			
Revaluation of land and buildings	9	**-**	7,963
Total other comprehensive income for the year, net of tax		**-**	7,963
Total comprehensive income for the year, net of tax		**(1,845)**	6,482
Total comprehensive income attributable to members of the Co-operative		**(1,845)**	6,482

BALANCE SHEET
AS AT 30 JUNE 2023

	Note	2023 $'000	2022 $'000
ASSETS			
Current assets			
Cash and cash equivalents	5	**3,100**	102
Trade and other receivables	6	**1,137**	1,733
Inventories	7	**5,424**	6,886
Other assets	8	**64**	89
Total current assets		**9,725**	8,810
Non-current assets			
Property, plant and equipment	9	**24,479**	29,688
Right-of-use assets	10	**12,538**	13,092
Intangible assets	11	**568**	594
Deferred tax assets	12	**1,257**	1,318
Total non-current assets		**38,842**	44,692
Total assets		**48,567**	53,502
LIABILITIES			
Current liabilities			
Trade and other payables	13	**5,871**	7,172
Interest-bearing loans and borrowings	14	**1,953**	8,358
Lease liabilities	15	**1,327**	1,395
Employee benefit obligations	16	**1,073**	1,326
Other liabilities	17	**123**	290
Total current liabilities		**10,347**	18,541
Non-current liabilities			
Interest-bearing loans and borrowings	14	**8,272**	2,940
Lease liabilities	15	**13,715**	13,880
Employee benefit obligations	16	**283**	306
Other liabilities	17	**1,134**	1,174
Total non-current liabilities		**23,404**	18,300
Total liabilities		**33,751**	36,841
Net assets		**14,816**	16,661
EQUITY			
Reserves	18	**12,098**	16,116
Retained earnings		**2,718**	545
Total equity		**14,816**	16,661

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2023

	Retained earnings $'000	Reserves $'000	Total equity $'000
Balance at 1 July 2021	2,026	8,153	10,179
Profit / (loss) for the year	(1,481)	-	(1,481)
Other comprehensive income	-	7,963	7,963
Total comprehensive income for the year	(1,481)	7,963	6,482
Balance at 30 June 2022	545	16,116	16,661
Balance at 1 July 2022	**545**	**16,116**	**16,661**
Profit / (loss) for the year	**(1,845)**	**-**	**(1,845)**
Other comprehensive income	**-**	**-**	**-**
Total comprehensive income for the year	**(1,845)**	**-**	**(1,845)**
Other			
Transfer surplus from reserves to retained earnings on disposal of property, plant and equipment	**4,018**	**(4,018)**	**-**
Balance at 30 June 2023	**2,718**	**12,098**	**14,816**

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2023

	Note	**2023** **$'000**	2022 $'000
Cash flows from operating activities			
Receipts from customers		**115,097**	117,412
Payments to suppliers and employees		**(115,582)**	(118,038)
Other income		**2,866**	3,495
Interest received		**60**	8
Interest paid		**(1,274)**	(949)
Net cash inflow / (outflow) from operating activities	20	**1,167**	1,928
Cash flows from investing activities			
Payments for property, plant and equipment		**(309)**	(675)
Proceeds from sale of property, plant and equipment		**4,033**	179
Payments for intangible assets		**-**	-
Net cash inflow / (outflow) from investing activities		**3,724**	(496)
Cash flows from financing activities			
Proceeds from borrowings		**-**	198
Repayment of borrowings		**(815)**	(1,664)
Payment of principal portion of lease liabilities		**(787)**	(766)
Payments for shares bought back		**(33)**	(73)
Net cash inflow / (outflow) from financing activities		**(1,635)**	(2,305)
Net increase / (decrease) in cash and cash equivalents		**3,256**	(873)
Cash and cash equivalents at the beginning of the year		**(1,050)**	(177)
Cash and cash equivalents at end of year	5	**2,206**	(1,050)

Annexure D

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2024
(DRAFT / UNAUDITED)

	2024	2023
	$'000	$'000
PROFIT FROM CONTINUING OPERATIONS		
Revenue from contracts with customers	**98,505**	107,126
Cost of sales	**(80,317)**	(87,379)
Gross profit	**18,188**	19,747
Other operating income	**3,204**	3,012
Bad and doubtful debts expense	**4**	(10)
Depreciation and amortisation expense	**(2,468)**	(2,600)
Employee benefits expense	**(13,303)**	(13,007)
Finance costs	**(1,203)**	(1,274)
Other expenses	**(8,152)**	(7,652)
Profit / (loss) before income tax	**(3,730)**	(1,784)
Income tax (expense) / benefit	**-**	(61)
Profit / (loss) for the year	**(3,730)**	(1,845)
Profit / (loss) attributable to members of the Co-operative	**(3,730)**	(1,845)
Other comprehensive income		
Revaluation of land and buildings	**-**	-
Total other comprehensive income for the year, net of tax	**-**	-
Total comprehensive income for the year, net of tax	**(3,730)**	(1,845)
Total comprehensive income attributable to members of the Co-operative	**(3,730)**	(1,845)

REGISTRAR OF CO-OPERATIVES NEW SOUTH WALES

BALANCE SHEET
AS AT 30 JUNE 2024
(DRAFT / UNAUDITED)

	2024	2023
	$'000	$'000
ASSETS		
Current assets		
Cash and cash equivalents	**1,096**	3,100
Trade and other receivables	**873**	1,137
Inventories	**3,388**	5,424
Other assets	**39**	64
Total current assets	**5,396**	9,725
Non-current assets		
Property, plant and equipment	**23,055**	24,479
Right-of-use assets	**11,068**	12,538
Intangible assets	**548**	568
Deferred tax assets	**1,318**	1,257
Total non-current assets	**35,989**	38,842
Total assets	**41,385**	48,567
LIABILITIES		
Current liabilities		
Trade and other payables	**5,252**	5,871
Interest-bearing loans and borrowings	**1,231**	1,953
Lease liabilities	**1,430**	1,327
Employee benefit obligations	**913**	1,073
Other liabilities	**73**	123
Total current liabilities	**8,899**	10,347
Non-current liabilities		
Interest-bearing loans and borrowings	**7,541**	8,272
Lease liabilities	**12,371**	13,715
Employee benefit obligations	**283**	283
Other liabilities	**1,102**	1,134
Total non-current liabilities	**21,297**	23,404
Total liabilities	**30,196**	33,751
Net assets	**11,189**	14,816
EQUITY		
Reserves	**12,066**	12,098
Retained earnings	**(877)**	2,718
Total equity	**11,189**	14,816