

Date: Wednesday 18th January 2012

Dear CPS Member,

RE: IMPORTANT CHANGES TO THE RULES THAT GOVERN YOUR CO-OPERATIVE.

In 2009 the State Parliament approved the Co-operatives Act (2009) which requires all co-operatives to adopt a new framework of rules. The new legislation was developed after extensive consultation with our peak co-operatives body "Co-operatives WA".

This letter is to inform all members of CPS about the nature and timing of changes that will take place as a result of the new legislation.

The new framework of rules.

The new framework of rules is a very comprehensive list of items that the parliament believes need to be in place for good governance of all co-operatives. The rules spell out the requirements for membership, voting, board structure, shareholdings, and a host of other items. In the past many co-operatives had limited documentation or policies in these areas. The new legislation is a bid to ensure all co-operatives remain competitive, viable and well managed.

The process for changes to the rules for CPS.

Creation of rules → Government Approval of rules → Member Consultation Period → Board Consideration → Notice of Special General Meeting → Vote at Special General Meeting

Your elected Board has been working through the changes to the rules of CPS for the past twelve months. The final draft of the rules follow many hours of constructive dialogue where the needs of all members were considered in a bid to create a leading co-operative for future generations to come.

The final draft of the rules required approval of the government's representative, The Registrar of Co-Operatives. It is the Registrar's responsibility to ensure that the new rules comply with the framework required by the Act.

The final draft of the new CPS rules has been approved by the Registrar and is now provided to the members for a six week consultative period. At the conclusion of this period on Wednesday 29th February 2012 the Board of Directors will make recommendation for adoption or, if required, modification of the rules. The Board will then call a Special General Meeting for the members to vote on the rules. It is anticipated that this meeting will take place at CPS in mid to late April 2012. A notice of meeting will be distributed with proxy forms in due course after the consultation period.

At the meeting the members will have the opportunity of voting on the adoption of the new rules.

Consultative Period

The consultation period has been set aside for members to review the new rules and to make representation to the board.

To make a comment to the Board in relation to the new rules please do so in writing before the closing date of the consultative period on 29 February 2012.

Comments are to be addressed to:

Company Secretary
Co-operative Purchasing Services
180 Welshpool Road
Welshpool WA 6106

The consultative period will close on Wednesday February 29th 2012.

Obtaining a copy of the rules.

A brief summary extract of the rules is provided in this document. A full copy of the rules (approximately 80 pages) is available from the CPS website <http://cps.coop>. A printed copy of the rules is available for members for a fee \$10.00. Should you require a printed copy please contact the Company Secretary by emailing ewarren@cpshardware.com.au.

Obtaining a copy of the Co-Operatives Act 2009

The Act, comprising of approximately 375 pages, is available from the State Law Publishers (SLP) at 10 William Street Perth or through the SLP website for \$63.10 + p&h.

Highlights of new rules and legislation.

Disclaimer: This summary of rules is provided to highlight what management considers to be the key changes to the co-operatives rules. The summary has been derived from the full set of rules. The summary cannot be expected to provide a full understanding of the proposed rules and their impact. Members should use this summary as a broad reference and should not rely on it for full disclosure or understanding of what is proposed. A full understanding can only be gained by reading the full set of rules which are available on the Co-operatives internet site or from the Co-operative.

In each of the following notes the most relevant section of the Act and the most relevant rule is provided. Example: Act section **(167.1)**
Relevant rule **[14.5]**

Voting: (167.1) Voting rights attach to membership and not shares. Each member has 1 equal vote and all votes are the same. Previously the rules of CPS attached voting rights to share classes. This is no longer permitted under the new act. The notion of both A and B class members having to approve changes within the co-operative is therefore defunct under the proposed rules.

Active Members: (111.a) (120.2.b) [23.1.b] The new act requires that members of a co-operative be active in engaging the business. The Board has recommended that a member be considered active if they spend a minimum of \$24,000 through the co-operative in the financial year through the co-

operatives charge-back system including those purchases through any appointed warehousing provider.

Where a member remains inactive for 12 months their membership is cancelled. Inactive members may continue to trade with the co-operative as customers but they will not be entitled to membership privileges which include voting rights or dividends on shares.

Deferred Capital Units: (257) [17.1.iii] A new class of capital exists under the new act known as Deferred Capital Units (DCU's). DCU's can be issued to, transferred to and held by persons who are not members of the co-operative. Holders of DCU's can receive dividends but are not entitled to vote.

The creation of this class of capital enables co-operatives to raise capital under a new form.

Inactive member shares: (120.2) (121.1) (127) These sections of the act declare that "The board of the co-operative must consider the shares of a member to be forfeited at the same time as a membership is cancelled."

Shares belonging to a cancelled member: (127.1.C.i) (127.2.b) The Board may issue Deferred Capital Units (DCU's) to the member in place of the shares that have been cancelled.

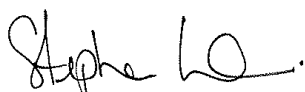
Transfer of Shares to DCU's – Inactive Member Shares: (129.2) [36.1.iii.b] An inactive members' shares will be transferred to DCU's on the day that the membership is cancelled.

DCU's must be paid out by the Co-Operative within 10 years of issue.

Expulsion of a member: [11.1] The co-operative may expel a member under a defined set of circumstances. These include but are not limited to: breach of contract, acting against the principals of the co-operative and bringing the co-operative into disrepute. Under such circumstances a member has the right to be heard and the right to appeal.

If you would like to ask any questions on the new rules please feel free to contact me by phoning 6314 0988 or emailing gm@cps.coop

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Stephen Wren'.

Stephen Wren
GENERAL MANAGER