

PRODUCT DISCLOSURE STATEMENT

ISSUE OF TRADING DEPOSIT SHARES BY FOODSTUFFS SOUTH ISLAND LIMITED

DATED 7 June 2023



This document gives you important information about this investment to help you decide whether you want to invest. There is other useful information about this offer on www.business.govt.nz/disclose. Foodstuffs South Island Limited has prepared this document in accordance with the Financial Markets Conduct Act 2013. You can also seek advice from a financial adviser to help you to make an investment decision.

1. KEY INFORMATION SUMMARY

What is this?

This is an offer of trading deposit shares ("Shares") in Foodstuffs South Island Limited ("FSSI"). The Shares give you a stake in the ownership of FSSI. You could receive a return reflecting the performance of FSSI through dividends being paid on the Shares.

If FSSI runs into financial difficulties and is wound up, you will only be paid after all creditors and holders of securities that rank ahead of the Shares on liquidation have been paid. You may lose some or all of your investment.

About Foodstuffs South Island Limited

FSSI and its subsidiaries trade primarily as grocery distributors. FSSI is a co-operative whose shareholders and banner group members independently hold interests in the New World, PAK'nSAVE, Four Square Supermarket, On The Spot Convenience and Raeward Fresh retail outlets in the South Island of New Zealand.

Purpose of this offer

Only people who are party to a trading membership agreement with FSSI as a member of the FSSI co-operative ("Trading Members") are eligible to participate in this offer of Shares and this offer is only being made to certain Trading Members as selected by FSSI.

The purpose of this offer is to permit each Trading Member whom the directors of FSSI have determined is entitled, the opportunity to subscribe for one Share for every whole \$1.00 of Trading Deposit that the Trading Member holds with FSSI in excess of one week's trading for that Trading Member (as determined by FSSI from time to time). FSSI will advise each eligible Trading Member of the maximum number of Shares that they are eligible to apply for.

Key terms of the offer

Brief description of the Shares	The Shares being offered are 2023 trading deposit shares in FSSI. The Shares carry no voting rights, are non-transferable, and may only be surrendered in certain circumstances.
Price of the Shares	\$1.00 per Share (being the "Nominal Value" fixed under the FSSI Constitution). The Issue Price of the Shares will be satisfied by FSSI debiting the Trading Member's trading deposit account with FSSI as shown in FSSI's financial statements as at the date of issue of the Shares, being 28 July 2023.
Date offer of Shares opens	16 June 2023
Date offer of Shares closes	7 July 2023
Date of issue of Shares	31 July 2023
Number of Shares being offered to each Trading Member	Each Trading Member eligible to subscribe for the Shares will be advised by FSSI of the number of Shares that Trading Member is entitled to subscribe for.
Maximum Number of Shares being offered in total to all Trading Members	20,055,363
Following the issue of the Shares, the percentage that the Shares represent of all Trading Deposit Shares (assuming all shares offered are issued)	18.6%

<i>Liability of shareholders to make further payments in relation to the Shares after issue</i>	No further liability
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How you can get your money out

These Shares cannot be sold or transferred. The only potential exceptions to this is the transfer of the Shares on the death or bankruptcy of the shareholder or in special circumstances which shall be determined at the sole discretion of the FSSI board.

FSSI has the power to require the holder of a Share to surrender their Shares if they cease to be a FSSI Trading Member, fail to comply in a material respect with requirements in a contract between them and FSSI, or a Compulsory Transfer Event (as defined in the FSSI Constitution) occurs. A holder of Shares who ceases to be a Trading Member may surrender the Shares to FSSI. The consideration for the Shares on surrender is the nominal value of \$1.00 per Share.

Key drivers of returns

The principal activities of FSSI, and therefore the activities likely to have the most impact on its financial performance, are the supply of and provision of food, foodstuffs, household supplies and consumables and other goods ("Groceries") in the South Island and the provision of services to or for the benefit of its shareholders (including Trading Members). This includes:

- the warehousing and supply of Groceries for resale;
- the manufacturing of Groceries;
- the provision of merchant guarantees and other commercial services to shareholders;
- the provision of training, technology services and market research for the benefit of shareholders;
- the provision of accountancy services for the benefit of shareholders;
- commercial property investments and development for grocery/supermarket retail purposes; and
- all other services and commercial transactions designed to assist and enhance FSSI's role as a co-operative organisation of independent Trading Members owning and operating their own businesses and working together for their mutual benefit and for the benefit of the co-operative.

Maintaining and increasing market share in the competitive grocery industry is a key driver of returns for FSSI and its Trading Members.

FSSI has a number of strategies and plans to maintain and grow its business in this competitive industry. FSSI considers that its trading prospects are good in that it maintains, and believes it will continue to maintain, a strong and stable financial position and it has a well-established history of trading and financial stability. In order to maintain and grow the business it is essential to understand retail customers and continue to acquire and develop the appropriate brand retail footprint. The FSSI Board and Executive have robust strategies in place with award-winning marketing programmes along with ensuring its brand standards are current and to land bank where appropriate.

Key risks affecting this investment

FSSI considers that the most significant factors that could affect return from holding these Shares are:

- **Member guarantee risk** - FSSI is a co-operative company and acts as guarantor for a number of its Trading Members' bank loans. FSSI takes security over Trading Members' assets as security for its guarantor obligations. FSSI is obligated under the guarantees to make the loan payments in the event a Trading Member defaults on a loan arrangement. The exercising of guarantees will be dependent on the financial stability of the Trading Members whose loans are guaranteed. If a number of guarantees are called upon at one time this may have an adverse effect on FSSI's financial performance. FSSI has not had any guarantees of its Trading Members called upon within the last ten years. FSSI currently classifies the possibility of this risk occurring, to an extent necessary to materially affect FSSI's ability to pay dividends on, or ultimately redeem, the Shares, as low.

- **Reputation risk** – There is an inherent risk that the products which FSSI supplies to its Trading Members and which they sell to the public are found to be contaminated or otherwise not safe. This is particularly the case with food products. FSSI owns brands including PAK'nSAVE, New World, Four Square Supermarket and Raeward Fresh, On the Spot Convenience and FSSI's house brands include Pams, Pams Finest and Value. If the reputation or integrity of those brands is harmed for any reason, the trading of FSSI and its Trading Members may be adversely affected. If brand harm occurs and there is a significant boycott or similar material downturn in patronage of FSSI banner group stores this may affect FSSI's financial performance. To date FSSI has only experienced potential reputational issues with isolated one-off third party supplied products. Reputation risk from product risk or brand damage may arise at any time, but would need to affect a number of product lines or a large number of FSSI's Trading Member's businesses before this would materially affect FSSI's financial position. FSSI currently classifies the possibility of this risk occurring, to an extent necessary to materially affect FSSI's financial performance, as low.
- **Pandemic Risk**– During 2020 to 2022, the Covid-19 global pandemic has impacted business operations throughout New Zealand and the world. In 2023 the World Health Organisation has declared that Covid-19 is no longer a global health emergency. In New Zealand, there are minimal restrictions in place and there are no limitations on businesses trading or movement of people within the country. As such, the pandemic risk to FSSI is now less than it was in recent previous years. However any resurgence of the virus in New Zealand may see further lockdowns and travel restrictions. While it is expected FSSI and its Trading members would be able to continue trading, there is a risk of Covid-19 disrupting that trade should staff become infected and international travel again be suspended. It is difficult to predict with any certainty the outcome should Covid-19 variants spread in New Zealand.
- **Market Study into the Retail Grocery Industry** – In December 2020, the Commerce Commission, on direction of the Government, began a market study into the retail grocery industry in New Zealand. The Commission's final report was released in March 2022, and made findings and recommendations to improve the state of competition in the New Zealand retail grocery market. The Grocery Industry Competition Bill is currently before Parliament and, if passed into law, would introduce several measures to regulate wholesale access and supply of groceries in New Zealand, establish a Grocery Commissioner and introduce a Grocery Code of Conduct as well as other measures to encourage market competition. The Government is also looking to introduce regulation around unit pricing standards in retail grocery. There is a risk to investment of Government interventions in the retail grocery market that alter the current business dynamics and compliance costs of FSSI and the market it operates in

This summary does not cover all of the risks of investing in the Shares. You should also read Section 8 of this PDS (entitled "Risks to Foodstuffs South Island Limited's business and plans").

Where you can find FSSI's financial information

The financial position and performance of FSSI are essential to the assessment of this offer. You should also read section 7 of this document (entitled "Foodstuffs South Island Limited's financial information").

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2. FOODSTUFFS SOUTH ISLAND LIMITED AND WHAT IT DOES

Overview

FSSI and its subsidiaries trade primarily as grocery distributors. FSSI is operated as a co-operative company by its shareholders and banner group members who independently hold interests in the New World, PAK'nSAVE, Four Square Supermarket, On The Spot Convenience and Raeward Fresh retail outlets in the South Island of New Zealand.

Group

FSSI is a company first incorporated under the Companies Act 1955 on 20 July 1988 and was registered as a Co-operative Company under the Co-operative Companies Act 1996 on 23 June 1997. FSSI re-registered under the Companies Act 1993 on 23 June 1997. FSSI changed its name from Foodstuffs (South Island) Limited to Foodstuffs South Island Limited on 20 April 2006.

FSSI's wholly owned subsidiary companies are:

1. Foodstuffs (South Island) Properties Limited
2. Murdoch Manufacturing Limited
3. Cash Wholesalers (South Island) Limited
4. Trents Wholesale Limited
5. Trents Wholesale (Liquor) Limited
6. Cash Wholesalers Limited
7. Transport South Island Logistics Limited
8. Foodstuffs JV Assets Limited
9. Foodstuffs South Island Christmas Club Limited
10. Roslyn Traders Limited
11. PCNW Limited
12. The Fresh Food Company Limited
13. Redcliffs Supermarket Limited
14. GTT National Limited
15. Croftwood 2012 Limited

The subsidiary companies listed 1 – 7 (inclusive) and 11 above are known as FSSI's "Guaranteeing Subsidiaries" under a trust deed (as initially restated on 5 February 2016 and subsequently restated on 30 October 2019) between FSSI, its Guaranteeing Subsidiaries and The New Zealand Guardian Trust Company Limited as Supervisor ("Trust Deed"). The assets being owned by FSSI and the Guaranteeing Subsidiaries are not secured to the Supervisor under the Trust Deed. The assets are secured to NZGT Security Trustee Limited under the Security Trust Deed dated 30 October 2019 and associated General Security Deed dated 30 October 2019 for the benefit of FSSI's bankers to secure the obligations of FSSI to those banks.

Key Aspects of FSSI's Business Operations

Since October 1988, FSSI has operated as a grocery distributor. It is operated as a co-operative by its shareholders and banner group members who independently hold interests in the New World, PAK'nSAVE, Four Square Supermarket, On The Spot Convenience and Raeward Fresh retail outlets in the South Island.

FSSI has extensive property investments in warehouses, supermarkets, and shopping mall complexes, and operates serviced and self-service wholesale units in four South Island centres.

FSSI confines itself to wholesaling and does not enter the retail market except in unusual circumstances and for a limited time, normally as a joint venture partner for members establishing a new venture.

FSSI takes deposits from its shareholders, Trading Members and non-members.

FSSI offers a substantial degree of assistance to its Trading Members in the marketing of their businesses and products.

Many of FSSI's Trading Members lease their supermarket or shop premises from Foodstuffs (South Island) Properties Limited, (a principal subsidiary of FSSI), which in turn is the registered proprietor, or

holds the head lease of the property concerned. Some of the supermarket premises are owned by Trading Members or are leased from third parties.

The principal activity of FSSI is the supply of and provision of food, foodstuffs, household supplies and consumables and other goods ("Groceries") and services to or for the benefit of its shareholders (including without limitation Trading Members) including:

- the warehousing and supply of Groceries for resale;
- the manufacturing of Groceries;
- the provision of merchant guarantees and other commercial services to shareholders;
- the provision of training, technology services and market research for the benefit of shareholders;
- the provision of accountancy services for the benefit of shareholders;
- commercial property investments and development for grocery/supermarket retail purposes;
- all other services and commercial transactions designed to assist and enhance the Group's role as a co-operative organisation of independent Trading Members owning and operating their own business and working together for their mutual benefit and the benefit of the Group.

Business Strategies

FSSI understands that in order to maintain and grow its business, it is essential to first understand, then meet and ultimately exceed, its retail customers' needs.

To this end FSSI is investing in IT systems which enable improved customer relationship management, lifting brand standards to deliver improved experience in store and ensuring further retail development as is appropriate.

One of FSSI's key strategic strengths is the franchise model which ensures each supermarket has a dedicated Owner Operator, focused on the market and its role within the local community.

FSSI is committed to maintaining a safety conscious work environment while removing costs from its operations where possible. This means ensuring appropriate work practices are in place and where appropriate, investing in its supply chain network to ensure both continuity of supply and lowest possible distribution costs.

Key Assets

The majority of FSSI's assets are land and buildings assets (approximately \$913m) as at 28 February 2023).

The land and buildings assets are either the retail supermarkets which FSSI owns and then leases to its Trading Members, its South Island Distribution Centre at Hornby, offices at Papanui in Christchurch and its Regional Distribution Centre at Dunedin.

FSSI will continue to invest in the development of its retail supermarkets by either the refurbishment of existing markets or developing new sites as required.

FSSI has recently invested in an extension to its ambient and temperature controlled Distribution Centre at Hornby in Christchurch. This state of the art facility now services much of the South Island with the Dunedin Regional Distribution Centre supplying high volume product to the markets in the lower South Island. Further investment will be required in time to enhance and improve supply chain operations.

Directors and Senior Managers

The directors of FSSI are:

- | | |
|--|---|
| • Glenn Robert Anderson of Nelson | • Phillip Patrick Blackburn of Christchurch |
| • Angela Jennifer Bull of Auckland | • Marcel Andrew Gray of Christchurch |
| • Michelle Ruth Grundy of Ranfurly | • Michelle Kaye King of Queenstown |
| • Russell Alexander McKenzie of Christchurch | • Justin Douglas Vaudrey of Christchurch |
| • Steven James Wakefield of Christchurch | • Jason Brian Williams of Christchurch |

The members of FSSI's Executive Leadership Team (each a "Senior Manager") are:

- Mary Devine – Chief Executive Officer
- Nicholas Barnes – General Manager Supply Chain
- Andrew Crerar – General Manager People & Capability
- Timothy Donaldson – General Manager Retail & Property
- Damian Lynch – General Manager Merchandise and Wholesale
- Nathan Marsh – Chief Financial Officer
- Lydia Matthews – Head of Strategy
- Matthew Richardson – Head of PMO
- Shayne Tong – General Manager Information Technology

All of FSSI's Senior Managers are based at Foodstuffs' Support Office at Papanui in Christchurch.

Substantial shareholders and relevant interests held by Directors and Senior Managers

No shareholder in FSSI holds a relevant interest in 5% or more of the shares on issue in FSSI, nor will do so after the issue of the Shares under this offer.

No Senior Manager holds any shares or other securities in FSSI.

All of the Directors of FSSI, excluding the Independent Directors, are associated with shareholders in FSSI (none of which shareholders hold more than 5% of the shares on issue in FSSI). Details of Director's interests are set out on page 9.

Options to acquire securities in FSSI

No person has an option to acquire shares or securities in FSSI.

Other equity securities in FSSI

As at the date of this document, FSSI has the following number and class of shares on issue:

Class of shares on issue	Number on issue	Voting rights
A Shares	370,550	Yes
D Shares	100	Only on Triggering Event
B Redeemable Shares	720	No
Trading Deposit Shares	81,176,414	No
2019 Retained Patronage Shares	56,100,846	No
2020 Retained Patronage Shares	42,045,093	No
2021 Retained Patronage Shares	46,467,817	No
2022 Retained Patronage Shares	37,250,073	No

There are no pre-emptive rights applying to any of the above shares although share transfers are restricted under the FSSI Constitution.

Priority of the Shares on liquidation

On liquidation of FSSI, shareholders would have the right to be paid the nominal value of the Shares (\$1.00 per Share):

- After amounts payable with respect to B Redeemable Shares and Retained Patronage Shares; and
- Equally with all other Shares and other shares on issue in FSSI (including A shares and D shares)

Priority of the Shares for dividends

As to the payment of dividends the Shares rank:

- After B Redeemable Shares and Retained Patronage Shares issued by FSSI; and
- Equally with all other Shares and other shares on issue in FSSI (including A Shares and D Shares).

FSSI may issue other Trading Deposit Shares ranking in all respects equally with, or ranking in all respects after, the Shares. FSSI intends to issue further Trading Deposit Shares in future. No Trading Deposit Shares ranking in priority to the Shares may be issued without the prior written consent of either:

- the holders of not less than 75% in number of the Shares; or
- 75% in number of the holders of Shares.

Priority of the Shares on surrender

A holder who ceases to be a Transacting Shareholder may surrender the Shares to FSSI. The consideration for the Shares on surrender is \$1.00 per Share. FSSI also has the power to require a holder to surrender its Shares if it ceases to be a Transacting Shareholder (as defined in the Constitution), fails to comply in a material respect with the requirements in a contract between FSSI and the holder, or a Compulsory Transfer Event (as defined in the Constitution) occurs. Again, the consideration for the Shares on surrender is \$1.00 per Share.

Interests of Directors and Senior Managers

The total remuneration and value of other benefits of directors of FSSI received for the financial year of FSSI ended 28 February 2023 are as follows:

Director	Remuneration and value of benefits
Glenn Robert Anderson	\$31,387
Phillip Patrick Blackburn	\$31,387
Angela Jennifer Bull	\$ 85,365
Marcel Andrew Gray	\$39,234
Michelle Ruth Grundy	\$31,387
Michelle Kaye King	\$31,387
Russell Alexander McKenzie	\$62,774
Justin Douglas Vaudrey	\$31,387
Steven James Wakefield	\$ 85,365
Jason Brian Williams	\$31,387

No services were provided to FSSI by any director other than in their capacity of acting as a director of FSSI.

The number of employees (or former employees) of FSSI, who for the financial year ended 28 February 2023, received remuneration and other benefits in their capacity as employees of FSSI that in value was or exceed \$100,000 are set out below:

Remuneration and value of benefits	Number of employees or former employees
1,980,000-1,989,999	1
1,200,000-1,209,999	1
730,000-739,999	1
680,000-689,999	1
640,000-649,999	1
560,000-569,999	1
530,000-539,999	1
470,000-499,999	1
450,000-459,999	1
310,000-319,999	1
300,000-309,999	1
280,000-289,999	2
260,000-269,999	2
250,000-259,999	3
240,000-249,999	3

230,000-239,999	3
220,000-229,999	4
210,000-219,999	4
200,000-209,999	3
190,000-199,999	8
180,000-189,999	9
170,000-179,999	6
160,000-169,999	11
150,000-159,999	11
140,000-149,999	12
130,000-139,999	21
120,000-129,999	27
110,000-119,999	51
100,000-109,999	60

Each member director has an indirect material interest in FSSI in that companies owned (directly or indirectly) by each member director are Trading Members of the FSSI and trade supermarkets or grocery stores under FSSI banner groups. Each such company associated with a member director therefore has franchise agreements, financing arrangements, leases and shareholdings with either FSSI or its subsidiary companies.

In all cases member directors of FSSI are treated in the same manner as other shareholders in FSSI in relation to:

- daily/weekly purchases of goods and services from FSSI;
- the entering into lease or sub-lease arrangements;
- the providing of guarantees on FSSI accounts to third parties (e.g. banks);
- the issue of monthly and annual cash rebates;
- the issue of annual loyalty rebates in the form of Retained Patronage Shares / Redeemable Preference Shares;
- the use of "At Call" interest earning deposits;
- the contribution of Trading Deposit accounts;
- the ability to subscribe for Trading Deposit Shares when offered;
- the further enhancement of their current or future retail outlet.

The companies associated with each member director, and the trading names of the supermarkets or grocery stores which they operate, are as below:

Director	Company/Trading Member	Company's business
Glenn Robert Anderson	Anderson Supermarkets Limited	New World Nelson City
Phillip Patrick Blackburn	Blackburn Retail Holdings Limited	PAK'nSAVE Riccarton
Marcel Andrew Gray	Kamco Limited	PAK'nSAVE Wainoni
Michelle Ruth Grundy	Maniototo Supermarket Limited	Maniototo Four Square
Michelle Kaye King	MAK Supermarket Limited	PAK'nSAVE Queenstown
Russell Alexander McKenzie	R.A. McKenzie Limited	New World St Martins
Justin Douglas Vaudrey	J & C Vaudrey Limited	New World Durham Street
Jason Brian Williams	JB & JM Williams Limited	PAK'nSAVE Moorhouse

Angela Jennifer Bull and Steven James Wakefield are independent directors and have no direct or indirect material interest in FSSI or its subsidiary companies.

Other material governance disclosures

The FSSI Constitution provides for a class of shares called "D" Shares which may only be held by a Protection Trust Shareholder (as defined in the Constitution).

The D Shares carry with them a number of voting rights calculated by reference to the total number of votes attaching to all other voting shares in FSSI. In the case of an ordinary resolution of shareholders, at a meeting the D Shares carry the same number of votes cast at the meeting plus

10, and other than at meetings, D Shares carry the same number of votes attaching to all other shares, plus 10.

The D Shareholders have certain rights and powers set out in clause 4 of Schedule 1 of the FSSI's Constitution. These voting rights apply to the D Shares only upon the occurrence of a "Triggering Event" as defined. Triggering Events include Foodstuffs receiving a takeover notice under the Takeovers Code or any person making a takeover offer for shares in FSSI.

3. PURPOSE OF THE OFFER

Each Trading Member whom the directors of FSSI have determined is entitled, is offered the opportunity to subscribe for one Share for every whole \$1.00 of Trading Deposit that the Trading Member holds with FSSI (as determined by FSSI from time to time). FSSI will advise each eligible Trading Member of the maximum number of Shares for which a Trading Member is entitled to subscribe.

The purpose of this offer of Shares is not therefore to raise capital for FSSI, but as a mechanism for Trading Members to convert some of the Trading Deposit that they hold with FSSI co-operative into an equity investment in FSSI.

The offer of Shares is not underwritten, although the Shares are issued as fully paid up from subscribing Trading Members' trading deposits with FSSI.

4. KEY DATES AND OFFER PROCESS

The key dates for Share offer are set out below (subject to extension at FSSI's discretion):

PDS and application forms sent out	9 June 2023
Opening Date	16 June 2023
Closing Date	7 July 2023
Issue Date	31 July 2023

Each Trading Member who is entitled to subscribe for Shares will be sent a copy of this Product Disclosure Statement including an application form, together with a statement of the maximum number of Shares for which that person is entitled to subscribe.

Each Trading Member who is entitled to subscribe for Shares must complete and sign an application form and return it to FSSI (at its address stated in the application form) so that it is received by FSSI no later than 5pm on the Closing Date. FSSI reserves the right to extend the period for the return of application forms.

An application for Shares will be irrevocable.

A Trading Member may not subscribe for less than all of the Shares to which that Trading Member is entitled.

FSSI reserves the right to withdraw the offer of Shares in whole or in part, or to reject any application for Shares in whole or in part, in their sole discretion, without giving any reason.

Shares will be issued on the Issue Date.

The issue price (\$1.00) of the Shares shall be satisfied by FSSI issuing each Share credited as fully paid as to \$1.00 out of funds credited to the relevant Trading Member in FSSI's financial statements as at 31 July 2023.

Share certificates will be issued by FSSI within one month of the issue of the Shares.

5. TERMS OF OFFER

<i>Brief description of the Shares</i>	The Shares being offered are trading deposit shares in FSSI. The Shares carry no voting rights, are non-transferable, and may only be surrendered in certain circumstances.

Price of the Shares	<p>\$1.00 per Share (being the "Nominal Value" under the FSSI Constitution).</p> <p>The Issue Price of the Shares will be satisfied by Foodstuffs debiting the Trading Member's trading deposit account with Foodstuffs as shown in FSSI's financial statements as at the date of issue of the Shares, being 31 July 2023.</p>
Date offer of Shares opens	16 June 2023
Date offer of Shares closes	7 July 2023
Date of issue of Shares	31 July 2023
Number of Shares being offered to each Trading Member	Each Trading Member eligible to subscribe for the Shares will be advised by FSSI of the number of Shares that Trading Member is entitled to subscribe for.
Maximum Number of Shares being offered in total to all Trading Members	20,055,363
Following the issue of the Shares, the percentage that the Shares represent of all Shares then on issue (assuming all shares offered are issued)	18.6%
Liability of shareholders to make further payments in relation to the Shares after issue	No further liability

The terms of issue of the Shares and their rights and entitlements are set out in clause 6 of Schedule 1 of FSSI's constitution. The FSSI constitution is available for download at the online Register of Financial Products at www.business.govt.nz/disclose.

Returns potentially payable on the Shares are discussed in section 6 of this document (entitled "Key features of the Shares").

6. KEY FEATURES OF THE SHARES

Issue and Payment

Only Trading Members of the FSSI co-operative are eligible to participate in this offer of Shares and this offer is only being made to certain Trading Members as selected by FSSI.

Key features of the Shares are also included in section 5 of the PDS entitled "*Terms of the Offer*".

Each Trading Member whom the directors of FSSI have determined is entitled, is offered the opportunity to subscribe for one Share for every whole \$1.00 of Trading Deposit that the Trading Member holds with FSSI in excess of one week's trading for that Trading Member (as determined by FSSI from time to time). FSSI will advise each eligible Trading Member of the maximum number of Shares that they are eligible to apply for.

Rights, Entitlements and Restrictions

The Shares carry the following rights, entitlements, and restrictions:

- A Share will not confer any voting rights on the holder;
- A holder is not entitled, by virtue of the holding of a Share, to receive notices of, or to attend or speak at, meetings of FSSI;
- The Co-operative Companies (Foodstuffs South Island Limited) Exemption Order 2013, an Order in Council pursuant to section 32 of the Co-operative Companies Act 1996, relating to Sections 209 and 209B of the Companies Act 1993 exempts FSSI from forwarding copies of

annual reports and financial statements to the holders of a Share. Therefore the holder of a Share shall not be entitled to receive copies of annual reports and financial statements;

- A holder will not, by virtue of the holding of a Share, be entitled to participate in any issue of shares (or other equity capital or convertible securities) or options or warrants by Foodstuffs or in any bonus issue of shares, debentures, or other securities by FSSI.

The full terms of issue of the Shares and their rights and entitlements are set out in clause 6 of Schedule 1 of FSSI's Constitution. The FSSI constitution is available for download at the online Register of Financial Products at www.business.govt.nz/disclose.

Dividend policy

Dividends may only be declared on the Shares at discretion of FSSI's Board. The Board considers FSSI's financial performance when determining whether to declare dividends on the Shares.

Dividends or returns on the Shares are:

- not guaranteed in any manner by FSSI or any other person;
- subject to the FSSI's board's discretion; and
- subject to FSSI meeting solvency requirements for the declaration and payment of dividends under the Companies Act 1993.

Any dividend returns are likely to be affected by taxes. Withholding taxes will be deducted from dividend payments in accordance with prevailing New Zealand tax law.

To the extent permitted by law and to the extent consistent with the prudent management of FSSI, the Directors intend to attach taxation imputations credits (where applicable) to dividends payable on the Shares. However, tax law is complex and holders should take tax advice on their own tax position.

Dividends paid out by FSSI on Trading Deposit Shares in the last three accounting periods are set out in the table under section 7 of this PDS.

Transfer and Surrender restrictions

The Shares cannot be sold or transferred, except that:

- the personal representative of a deceased sole holder of Shares or the assignee of the property of a bankrupt holder of Shares may be registered as the holder of the Shares;
- where a holder of Shares dies or becomes bankrupt then the relevant Shares are transferable by the personal representative or assignee in bankruptcy or liquidator of that holder (whether or not the transferee is a Trading Member or FSSI Franchisee in terms of FSSI's Constitution) subject to various matters including the Directors' right to refuse to register the relevant transfer; and
- the Directors may, in their sole discretion, where they consider that special circumstances exist, permit other transfers of Shares. FSSI has the power to require the holder of a Share to surrender their Shares if they cease to be a FSSI Trading Member, fails to comply in a material respect with requirements in a contract between them and FSSI, or a Compulsory Transfer Event (as defined in the FSSI Constitution) occurs.

A holder of Shares who ceases to be Trading Members may surrender the Shares to FSSI. The consideration for the Shares on surrender is the nominal value of \$1.00 per Share.

In the unlikely event of a collapse of FSSI's business a subscriber's investment of one dollar (\$1.00) for each of the Shares he or she holds may not be recovered. In the same circumstances any dividends due to holders of the Shares but not yet paid may not be recovered.

As the Shares are issued as fully paid up, there is no requirement for a holder to make any further payments to FSSI or any other party on these Shares.

7. FOODSTUFFS SOUTH ISLAND LIMITED'S FINANCIAL INFORMATION

These tables provide key financial information about FSSI. Full financial statements are available on the offer register at <http://www.business.govt.nz/disclose/about-the-register/searching-for-an-offer-or-scheme>. If you do not understand this financial information, you can seek advice from a financial adviser or accountant.

Selected Financial Information

	28/02/2023	28/02/2022 (As Restated)	28/02/2021 (As Restated)
Revenues	3,525,553	3,310,501	3,284,884
Earnings before Interest, Tax, Depreciation, Amortisation and Rebates	389,159	363,196	351,291
Earnings before Interest, Tax, Depreciation and Amortisation	89,207	70,464	47,858
Net Profit After Tax	6,917	(1,335)	(7,776)
Total Dividends	10,338	8,805	9,028
On Trading Deposit Shares	2,586	994	991
Total Assets	1,398,823	1,350,330	1,393,349
Total Liabilities	1,030,199	960,427	1,012,885
Total Debt (interest bearing liabilities)	501,305	458,964	479,811
Net Cashflows from Operating Activities	68,009	171,701	110,457

Note:

1. The above figures are in \$000s and are GAAP financial measures derived from audited financial statements. Please refer to the full financial statements for further detail on restatements.

8. RISKS FOODSTUFFS SOUTH ISLAND LIMITED'S BUSINESS AND PLANS

This section contains a description of the circumstances that FSSI is aware of that exist, or are likely to arise, that significantly increase the risk to FSSI's financial position, financial performance or stated plans.

Specific Risks relating to Foodstuffs South Island Limited's financial performance

Reputation risk – There is an inherent risk that the products which FSSI supplies to its Trading Members and which they sell to the public are found to be contaminated or otherwise not safe. This is particularly the case with food products. FSSI owns brands including PAK'nSAVE, New World, Four Square and Raeward Fresh and FSSI's house brands include Pams, Pams Finest and Value. If the reputation or integrity of those brands is harmed for any reason, the trading of FSSI and its Trading Members may be adversely affected. If brand harm occurs and there is a significant boycott or similar material downturn in patronage of FSSI banner group stores this may affect FSSI's Trading Members and FSSI's financial performance. To date FSSI has only experienced potential reputational issues with isolated one-off third party supplied products. Reputation risk from product risk or brand damage may arise at any time, but would need to affect a number of product lines or a large number of FSSI's Trading Member's businesses before this would affect FSSI's financial performance. FSSI currently classifies the possibility of this risk occurring, to an extent necessary to materially affect FSSI's ability to pay dividends on the Shares or to pay redemption amounts for the Shares, as low.

Concentration risk – FSSI operates exclusively in the South Island of New Zealand. Its Trading Members and tangible assets are situated in the South Island and its distribution network and supply chain is South Island based. FSSI does not have geographic spread of its business beyond the South Island as some of its major competitors do. An economic or other event or events specifically

affecting the South Island (or a major part of it) may affect the ability of FSSI to receive products from its suppliers to transport, store or sell products, or otherwise limit or reduce demand for products which FSSI's Trading Members sell. Such a significant South Island event or series of events may have an effect on FSSI's financial performance and thus FSSI's ability to pay dividends on the Shares or to pay redemption amounts for the Shares, depending on the nature and extent of the event(s).

As an organisation that only operates in the South Island, FSSI's trading position may be potentially far more affected by a significant South Island specific event than its major competitors. A large economic or other event which may be South Island centric, whilst unlikely, if occurred may have a material impact on FSSI's ability to pay dividends on the Shares or to pay redemption amounts for the Shares.

Member Guarantee Risk – FSSI acts as guarantor for a number of Trading Members' bank loans. FSSI takes security over the members' assets as security for its guarantor obligations. FSSI is obligated under the guarantees to make the loan payments in the event a Trading Member defaults on a loan arrangement. The exercising of guarantees will be dependent on the financial stability of the Trading Members whose loans are guaranteed. In most cases the borrowings are at call. FSSI considers it unlikely that it will pay any amounts under the guarantee arrangements, based on a review of the current financial situation of members. FSSI manages its guarantor risk by regularly reviewing its Trading Members' trading so that it is aware of any financial concerns early and by having security over the assets of its members to enable repayment of amounts paid under a guarantee. If a number of guarantees are called upon at one time this may have an effect on FSSI's financial position until FSSI could recoup these payments under its securities. As at 28 February 2023 FSSI has contingent liabilities under Trading Member guarantees of \$273,892,000 FSSI has not had any guarantee of its Trading Member called upon in the last ten years. FSSI currently classifies the possibility of this risk occurring, to an extent necessary to materially affect FSSI's financial performance, and thus its ability to pay dividends on the Shares or to pay redemption amounts for the Shares, as low.

Regulatory risk - Changes to statutory requirements that affect FSSI, or its Trading Members, may either directly or indirectly limit Foodstuffs' business or increase its compliance costs. Depending upon the requirement, the risk could be significant. Any significant regulatory changes to the sale of alcohol in supermarkets, is a potential example of this. FSSI manages this risk by monitoring proposed regulatory changes relevant to its business, submitting on proposed changes where appropriate and appropriately planning for any future changes in advance of their introduction. In addition the Commerce Commission completed a market study into the retail grocery industry in New Zealand and published its final report in March 2022. The Commission made findings and recommendations to improve the state of competition in the New Zealand retail grocery market. The Grocery Industry Competition Bill is currently before Parliament and, if passed into law, would introduce several measures to regulate wholesale access and supply of groceries in New Zealand, establish a Grocery Commissioner and introduce a Grocery Code of Conduct as well as other measures to encourage market competition. The Government is also looking to introduce regulation around unit pricing standards in retail grocery. There is a risk to investment of Government interventions in the retail grocery market that alter the current business dynamics and compliance costs of FSSI and the market it operates in.

Pandemic Risk – During 2020 to 2022, the Covid-19 global pandemic has impacted business operations throughout New Zealand and the world. In 2023 the World Health Organisation has declared that Covid-19 is no longer a global health emergency. In New Zealand, there are minimal restrictions in place and there are no limitations on businesses trading or movement of people within the country. As such, the pandemic risk to FSSI is now less than it was in recent previous years. However any resurgence of the virus in New Zealand may see further lockdowns and travel restrictions. While it is expected FSSI and its Trading members would be able to continue trading, there is a risk of Covid-19 disrupting that trade should staff become infected and international travel again be suspended. It is difficult to predict with any certainty the outcome should Covid-19 variants spread in New Zealand.

Given FSSI's view of its trading prospects, it believes that it is unlikely that any of the risks noted above would have a significant impact on the financial performance of FSSI (and hence its ability to meet its obligations to holders of the Shares) unless the impact or effect of the occurrence of any such risk was severe.

General Risks

Other more general risks which may affect FSSI's financial performance include:

- a general downturn in economic and business conditions;
- decreases in consumer demand or changes in consumer habits;
- changes in tax rates or regimes;
- changes in timing and amount of FSSI's forecast capital expenditure;

- a new competitor entering the markets in which FSSI or its Trading Members operate, or a competitor substantially increasing their market share.

Some of the risks above are managed by FSSI having significant public liability insurance.

9. TAX

Tax law is complex and changes frequently. Taxation could have a significant consequence for investments, including returns payable in relation to the Shares.

The information in this section is intended as general guidance only. FSSI recommends that Trading Members seek professional tax advice regarding their individual circumstances prior to investing in the Shares.

Dividend returns on the Shares are likely to be affected by taxes with withholding taxes deducted from dividend payments in accordance with prevailing New Zealand tax law.

10. WHERE YOU CAN FIND MORE INFORMATION

Further information relating to FSSI and the Shares (including the Trust Deed and FSSI's financial statements) is available free of charge on the online Register of Financial Products at www.business.govt.nz/disclose and can be obtained by request to the Registrar of Financial Service Providers.

FSSI's constitution may also be viewed free of charge on the Companies Office website www.business.govt.nz/companies. Copies may also be obtained by contacting the Companies Office of the Ministry of Business, Innovation and Employment at info@companies.govt.nz or 0508 266 726. A fee may apply for this.

Information can also be inspected without fee at the registered office of FSSI, 167 Main North Road, Christchurch, during normal business hours by any person who so requests. Requests for copies of documents such as FSSI's financial statements and the Trust Deed should be made in writing to FSSI's Secretary at the address listed below in section 12 (Contact Information).

11. HOW TO APPLY

Entitlement to Shares

Each Trading Member who is entitled to subscribe for Shares will be sent a copy of this document including an application form, together with a statement of the maximum number of Shares for which that person is entitled to subscribe.

Each Trading Member who is entitled to subscribe for Shares must complete and sign an application form and return it to FSSI (at its address stated in the application form) so that it is received by FSSI **no later than 5pm on the 7th July 2023**. FSSI reserves the right to extend the period for the return of application forms.

An application for Shares will be irrevocable.

Application forms can be accessed at on the Disclose Register at www.business.govt.nz/disclose.

12. CONTACT INFORMATION

FSSI can be contacted at either:

The Company Secretary
Foodstuffs South Island Limited
167 Main North Road
Christchurch 8052
Telephone (03) 353 8700

The Securities Registrar
Foodstuffs South Island Limited
167 Main North Road
Christchurch 8052
Telephone 0800 688 887