

PRODUCT DISCLOSURE STATEMENT

ISSUE OF RETAINED PATRONAGE SHARES BY FOODSTUFFS SOUTH ISLAND LIMITED

DATED 8 June 2021



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 retained patronage shares for 2021 ("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, Henry's Beer, Wine and Spirits 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 for FSSI to pay out loyalty rebates earned as being part of the FSSI co-operative for the financial year ended 28 February 2021, by way of issuing fully paid up Shares.

Trading Members who are entitled to subscribe for Shares but who renounce all or part of that entitlement will forfeit that Trading Member's right to be paid a retained patronage loyalty rebate by FSSI for 2021.

Key terms of the offer

<i>Brief description of the Shares</i>	<p>The Shares being offered are 2021 retained patronage shares in FSSI, to be a separate class of retained patronage shares distinguished by the date of issue and to be known as "2021 Retained Patronage Shares".</p> <p>The Shares will be issued as fully paid up to \$1.00, representing the retained patronage loyalty rebate to Trading Members for the 2021 financial year.</p> <p>The Shares carry no voting rights, are non-transferable, and are redeemable only at the option of FSSI.</p>
<i>Price of the Shares</i>	\$1.00 per Share (being the "Specified Value" fixed under the FSSI Constitution)
<i>Date offer of Shares opens</i>	18 June 2021
<i>Date offer of Shares closes</i>	9 July 2021
<i>Date of issue of Shares</i>	30 July 2021
<i>Number of Shares being offered to each Trading Member</i>	Each Trading Member eligible to subscribe for the Shares will be advised by FSSI of the maximum number of Shares that Trading Member is entitled to subscribe for.
<i>Minimum number of Shares being offered to each Trading Member</i>	300 Shares

Maximum Number of Shares being offered in total to all Trading Members	46,467,817
Following the issue of the Shares, the percentage that the Shares represent of all Retained Patronage Shares then on issue	19%
Liability of shareholders to make further payments in relation to the Shares after issue	No further liability

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.

The Shares will be redeemed by FSSI on a date to be determined by the Board of FSSI in its absolute discretion. Shares are not redeemable at the option of the holder.

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, Henry's Beer Wine and Spirits 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*– The Covid-19 global pandemic has impacted business operations throughout New Zealand and the world, as governments enforce widespread lockdowns and social distancing measures to combat the spread of the Covid-19 virus. During the 2020 lockdown and throughout Alert Levels 3 and 4, FSSI was classified as an essential service by the government. This permitted FSSI and its Trading Members to continue trading throughout the lockdown period but in accordance with government guidelines around social distancing and maximum numbers onsite. Foreign tourism is currently minimal to non-existent. This has impacted Trading Members in tourist based centres throughout the South Island. The 2020 lockdowns did not negatively impact FSSI financially. There is however a risk of a resurgence of the virus in New Zealand which 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. It is difficult to predict with any certainty the outcome should Covid-19 once again spread in New Zealand.

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, Henry's Beer, Wine and Spirits 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

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 and associated General Security Deed 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, Henry's Beer, Wine and Spirits 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 distributing products to its members 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, 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 \$731m as at 28 February 2021).

The land and buildings assets are 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 Christchurch | • Phillip Patrick Blackburn of Christchurch |
| • Mary Monica Devine of Christchurch | • 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 Timaru |

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

- Stephen Anderson – Chief Executive Officer
- Nicholas Barnes – General Manager Supply Chain
- Roger Davidson – General Manager Property & Retail Development
- Timothy Donaldson – General Manager Retail
- Philip Lemon – General Manager Merchandise
- Damian Lynch – General Manager Strategy and People
- Nathan Marsh – Chief Financial Officer
- Philip Wright – 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	33,095,755	No
2017 Retained Patronage Shares	58,352,705	No
2018 Retained Patronage Shares	58,873,945	No
2019 Retained Patronage Shares	56,100,846	No
2020 Retained Patronage Shares	42,045,093	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 the liquidation of FSSI, holders of the Shares (and any other Retained Patronage Shares) are entitled to receive an amount equal to the Retained Patronage Shares Redemption Amount for the Shares, calculated at the date of distribution:

- After any amounts payable with respect to B Redeemable Preference Shares issued by FSSI and any other Retained Patronage Shares with issue dates prior to 2021;
- Equally with other 2021 Retained Patronage Shares; and
- Ahead of amounts payable on or in respect of all other shares (including "A" shares, "D" shares and Trading Deposit Shares).

As among themselves, Retained Patronage Shares shall rank on liquidation not equally, in that classes of Retained Patronage Shares shall rank in the order of issue date (with the earliest issue date having the highest priority).

Priority of the Shares for dividends

The Shares (together with other clauses of Retained Patronage Shares issued by FSSI) rank as to the payment of dividends:

- After B Redeemable Shares;
- Equally with other Retained Patronage Shares; and
- Ahead of all other shares on issue in FSSI (including A Shares, D Shares and Trading Deposit Shares).

FSSI may issue other Retained Patronage Shares ranking in all respects equally with, or ranking in all respects after, the Shares. FSSI intends to issue further Retained Patronage Shares in future. No Retained Patronage 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 Retained Patronage Shares; or
- 75% in number of the holders of Retained Patronage Shares.

Priority of the Shares on redemption

FSSI may not redeem the Shares without having redeemed all other classes of Retained Patronage Shares on issue either before, or after the same time as, redemption of the Shares.

The Board's experience is that a 5 year redemption period for Retained Patronage Shares has operated successfully. However, under the terms of issue of the Shares, the Board has the discretion to set the redemption date for the Shares, which provides the Board with greater flexibility for a redemption date, having regard to FSSI's funding and capital requirements.

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 2021 are as follows:

Director	Remuneration and value of benefits
Glenn Robert Anderson	\$29,074
Phillip Patrick Blackburn	\$29,074
Mary Monica Devine	\$80,000
Kathryn Margaret Frampton*	\$14,537
Marcel Andrew Gray	\$36,342
Michelle Ruth Grundy	\$29,074
Michelle Kaye King**	\$14,537
Christopher James McDonald*	\$14,537
Russell Alexander McKenzie	\$58,148
Justin Douglas Vaudrey	\$29,074
Steven James Wakefield	\$80,000
Jason Brian Williams**	\$14,537

*Resigned during the year

** Partial year

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 2021, 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
2,080,000 - 2,090,000	1
490,000 - 500,000	1
450,000 - 460,000	1
440,000 - 450,000	1
420,000 - 430,000	1
410,000 - 420,000	2
380,000 - 390,000	1
270,000 - 280,000	1
250,000 - 260,000	2
240,000 - 250,000	2
210,000 - 220,000	4
200,000 - 210,000	7
190,000 - 200,000	1
180,000 - 190,000	7
170,000 - 180,000	9
160,000 - 170,000	7
150,000 - 160,000	6
140,000 - 150,000	13
130,000 - 140,000	12
120,000 - 130,000	25
110,000 - 120,000	37
100,000 - 110,000	42

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 Rolleston
Phillip Patrick Blackburn	Blackburn Retail Holdings Limited	New World Ilam
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 Timaru*

*On 14 June 2021 and subject to settlement, JB & JM Williams Limited is to become Owner of PAK'nSAVE Moorhouse and will sell the PAK'nSAVE Timaru business on a date to be determined.

Mary Monica Devine 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

The purpose of this offer is for FSSI to pay out loyalty rebates (being the 2021 retained patronage loyalty rebate) earned as being part of the FSSI co-operative for the financial year ended 28 February 2021 to selected Trading Members, by way of issuing fully paid up Shares.

Trading Members do not have the option to receive the 2021 loyalty rebate in cash from FSSI as the loyalty rebate is paid only by way of the issue of the Shares.

The purpose of this offer of Shares is not therefore to raise capital for FSSI, but as a mechanism for distributing profits to Trading Members.

The offer of Shares is not underwritten, although the Shares are issued as fully paid up from Trading Members 2021 loyalty rebate.

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	11 June 2021
Opening Date	18 June 2021
Closing Date	9 July 2021
Issue Date	30 July 2021

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

There is no requirement for a Trading Member who holds Retained Patronage Shares previously issued by FSSI (an "existing holder") to complete and return an application form. An existing holder will be deemed to have accepted all of the Shares for which the existing holder is entitled to subscribe, unless the existing holder renounces such entitlement by advising FSSI in writing no later than 5pm on the Closing Date.

Each new Trading Member (not being an existing holder) 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 books of accounts as the 2021 Retained Patronage loyalty rebate paid to that Trading Member.

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

A Trading Member who is entitled to subscribe for Shares but who renounces part or all, or does not apply for all, of the Shares to which that Trading Member is entitled will forfeit that Trading Member's right to be paid a 2021 Retained Patronage loyalty rebate for 2021, and, consequently, to re-invest that rebate in subscribing for Shares. A loyalty rebate will not be payable to persons who do not elect to reinvest all of that rebate in Shares, or whose application is rejected by FSSI.

5. TERMS OF OFFER

<i>Brief description of the Shares</i>	<p>The Shares being offered are Retained Patronage Shares in FSSI, to be a separate class of retained patronage shares distinguished by the date of issue and to be known as 2021 Retained Patronage Shares.</p> <p>The issue of the Shares provides a mechanism for FSSI to pay out loyalty rebates for the financial year ended 28 February 2021 to those selected Trading Members by crediting each Share as fully paid up to \$1.00, being the 2021 retained patronage loyalty rebate. The Shares are only offered to FSSI Trading Members.</p> <p>The Shares carry no voting rights, are non-transferable, and are redeemable only at the option of FSSI.</p>
<i>Price of the Shares</i>	\$1.00 per Share (being the "Specified Value" under the FSSI Constitution)
<i>Date offer of Shares opens</i>	18 June 2021
<i>Date offer of Shares closes</i>	9 July 2021
<i>Date of issue of Shares</i>	30 July 2021
<i>Number of Shares being offered to each Trading Member</i>	Each Trading Member eligible to subscribe for the Shares will be advised by FSSI of the maximum number of Shares that Trading Member is entitled to subscribe for.
<i>Minimum number of Shares being offered to each Trading Member</i>	300 Shares
<i>Maximum Number of Shares being offered in total to all Trading Members</i>	46,467,817
<i>Following the issue of the Shares, the percentage that the Shares represent of all Retained Patronage Shares then on issue</i>	19%
<i>Liability of shareholders to make further payments in relation to the Shares after issue</i>	No further liability

A Trading Member who is entitled to subscribe for Shares but who renounces all or part of that entitlement will forfeit that Trading Member's right to be paid a loyalty rebate for 2020.

The terms of issue of the Shares and their rights and entitlements are set out in Clause 5 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

The Shares being offered are a separate class of retained patronage shares distinguished by the date of issue and to be known as 2021 Retained Patronage Shares.

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

The purpose of this offer is for FSSI to pay out loyalty rebates (being the 2021 retained patronage loyalty rebate) earned as being part of the FSSI co-operative for the financial year ended 28 February 2021 to selected Trading Members, by way of issuing fully paid up Shares.

Trading Members do not have the option to receive the 2021 loyalty rebate in cash from FSSI. This loyalty rebate is paid only by way of the issue of the Shares.

Ranking

The ranking of the Shares on liquidation, for redemption and in relation to dividends is set out in section 2.

Rights and Entitlements

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 (for the purposes of this clause the "Exemption Order"), 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.
- No Share is transferable 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.

The terms of issue of the Shares and their rights and entitlements are set out in clause 5 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.

Redemption

The Board's experience is that a 5 year redemption period for Retained Patronage Shares has operated successfully. However under the terms of issue of the Shares, the Board has the discretion to set the redemption date for the Shares, which provides the Board with greater flexibility for a redemption date, having regard to FSSI's funding and capital requirements.

Dividends

Each Share entitles the holder to a cumulative preferential dividend out of Foodstuffs' profits. The key factor that determines the dividend is the rate set by the Directors for each Dividend Period (having regard to, among other things, FSSI's lowest cost of borrowing and the then prevailing income tax rates).

The Board may determine in its discretion to pay a preferential Dividend out of FSSI's profits for each Dividend Period at such rate (calculated on the Specified Value of \$1.00) as the Directors may decide at or prior to the commencement of the Dividend Period in respect of which the Dividend is payable.

Where the Dividend Payment Date does not fall on a business day, payment shall be deferred until the next business day.

Withholding taxes will be deducted from Dividend payments in accordance with prevailing New Zealand income tax legislation.

The Directors have determined that:

- Shares will be issued fully paid up to the Specified Value of \$1.00;
- the first Dividend Payment Date will be on or about 31 May 2022 and each anniversary thereafter until redemption of the Shares;
- the Dividends payable on the Shares shall be:
 - for the first Dividend Period, at the rate of 3.00% per annum fully imputed, calculated on the Specified Value of the Shares and to be paid in arrears on the Dividend Payment Date;
 - for the subsequent Dividend Periods, at specified fixed rates to be determined by the Directors having regard to (amongst other things) FSSI's lowest cost of borrowing and the then prevailing income tax rates and to be paid in arrears on the Dividend Payment Date at the end of each Dividend Period;
- the holders of Shares will be advised no later than 1 June in each year of the Dividend rate applicable to the Shares for the Dividend Period. The Board reserves the right to increase or decrease from time to time the Dividend rate applicable after 31 May 2022 for any subsequent Dividend Period on the Shares.

The 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 are not guaranteed by any person, are declared at the discretion of the FSSI Board, and are subject to FSSI meeting Companies Act 1993 solvency requirements.

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

The returns on the Shares described above are:

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

Neither FSSI, the subscriber, or any other party has the right to alter the amount of money payable by the subscriber or otherwise alter the terms of the security.

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

	28/02/2021	29/02/2020	28/02/2019
Revenues	3,284,884	3,183,208	3,136,258
Earnings before Interest, Tax, Depreciation, Amortisation and Rebates	308,788	352,859	333,949
Earnings before Interest, Tax, Depreciation and Amortisation	5,355	74,128	57,251
Net Profit After Tax	(2,317)	8,047	8,118
Total Dividends	8,805	9,028	8809
On Retained Patronage Shares	7,812	8,037	7,809
Total Assets	1,406,423	1,402,486	1,292,821
Total Liabilities	1,016,546	1,009,496	897,122
Total Debt (interest bearing liabilities)	479,811	469,546	431,677
Net Cashflows from Operating Activities	110,457	92,157	29,128

Note: The above figures are in 000s and are GAAP financial measures derived from audited financial statements.

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, Henry's Beer Wine and Spirits 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).

An example is that in the 2010/2011 Canterbury earthquakes, FSSI had four Trading Members severely affected, in that the New Worlds at St Martins, Kaiapoi and Redcliffs, and the PAK'nSAVE at Wainoni, (all in Christchurch) were damaged and subsequently demolished (all are now rebuilt), as well other Trading Members' business in Canterbury affected to varying degrees. Ultimately the Canterbury earthquakes did not materially affect FSSI's financial performance. As an organisation that only operates in the South Island however, 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 2021 FSSI has contingent liabilities under Trading Member guarantees of \$327,967,221 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 is undertaking a Market Study of the Grocery Industry and will be providing a draft report to the Minister in July 2021 with a final report due in November 2021. This report may make recommendations to the government which if implemented, could also affect Foodstuffs business and/or increase compliance costs.

Pandemic Risk– The Covid-19 global pandemic has impacted business operations throughout New Zealand and the world, as governments enforce widespread lockdowns and social distancing measures to combat the spread of the Covid-19 virus. During the 2020 lockdown and throughout Alert Levels 3 and 4, FSSI was classified as an essential service by the government. This permitted FSSI and its Trading Members to continue trading throughout the lockdown period but in accordance with government guidelines around social distancing and maximum numbers onsite. Foreign tourism is currently minimal to non-existent. This has impacted Trading Members in tourist based centres throughout the South Island. The 2020 lockdowns did not negatively impact FSSI financially. There is

however a risk of a resurgence of the virus in New Zealand which 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. It is difficult to predict with any certainty the outcome should Covid-19 once again 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.

Under current taxation legislation, Trading Members who reinvest their 2020 loyalty rebate accrued with FSSI by subscribing for Shares will still be liable for income tax on the amount of that loyalty rebate.

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 (and, in the case of a new Trading Member, an application form), together with a statement of the maximum number of Shares for which that person is entitled to subscribe.

Existing holders

There is no requirement for a Trading Member who holds Retained Patronage Shares previously issued by FSSI (an "existing holder") to complete and return an application form to apply for Shares. An existing holder will be deemed to have accepted all of the Shares for which the existing holder is

entitled to subscribe, unless the existing holder renounces such entitlement by advising FSSI in writing no later than **5pm on the 9th July 2021**.

New holders

Each new Trading Member (not being an existing holder) 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 9th July 2021**. FSSI reserves the right to extend the period for the return of application forms.

An application for Shares will be irrevocable.

A Trading Member who is entitled to subscribe for Shares but who renounces part or all, or does not apply for all, of the Shares to which that Trading Member is entitled will forfeit that Trading Member's right to be paid a 2021 Retained Patronage loyalty rebate for 2021, and, consequently, to re-invest that rebate in subscribing for Shares. A loyalty rebate will not be payable to persons who do not elect to reinvest all of that rebate in Shares, or whose application is rejected by FSSI.

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