



Primary WOOL CO-OPERATIVE LTD

Product Disclosure Statement

For an offer of Ordinary Rebate Shares
in Primary Wool Co-operative Limited

Issued by Primary Wool Co-operative Limited
Dated 21 December 2017

This document is a replacement Product Disclosure Statement, replacing the Product Disclosure Statement for an offer of Ordinary Rebate Shares in Primary Wool Co-operative Limited issued by Primary Wool Co-operative Limited dated 30 November 2016.

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. Primary Wool Co-operative 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 make an investment decision.

1. Key Information Summary (KIS)

What is this?

This is an offer of Ordinary Rebate Shares in Primary Wool Co-operative Limited (*the Co-operative*). Ordinary Rebate Shares give you a stake in the ownership of the Co-operative. You may receive a return reflecting the performance of the Co-operative by way of dividends, rebates or other distributions.

If the Co-operative runs into financial difficulties and is wound up, you will be paid only after all creditors and any holders of preference shares have been paid. You may lose some or all of your investment.

About Primary Wool Co-operative

The Co-operative is a farmer-owned wool co-operative with a 50% shareholding in Carrfields Primary Wool Limited and subsidiaries (*CP Wool*). As such, the Co-operative does not trade itself but is an investment vehicle to enable farmer-shareholders to share in industry ownership and potential wool returns beyond the farm gate.

The CP Wool joint venture incorporates much of the wool supply chain including broking (testing, warehousing and preparing wool for sale), owns the international brand programme Just Shorn® and has a majority shareholding in NZ Yarn Limited. NZ Yarn manufactures and markets high quality NZ wool spun yarns for the carpet industry worldwide. Another key subsidiary of CP Wool is the wholly owned Carrfields Primary Wool North America Limited which facilitates sales in the North American market.

Purpose of this offer

The purpose of this offer is to facilitate the offer and allotment of Ordinary Rebate Shares to persons who are, or who are intending to be, Transacting Shareholders of the Co-operative (*Transacting Shareholders* has the meaning given to that term in section 4 of the Co-Operative Companies Act 1996) and in the case of the Co-operative, is someone able to supply wool to CP Wool.

Money raised under the offer of Ordinary Rebate Shares will be used as general funds (including for working capital requirements, repayment of loans, or payment for surrendered shares) rather than for a specific activity.

Key terms of the offer

Description of the shares	Ordinary Rebate Shares
Price per share	\$1.00 (being the nominal value of the shares)
Intended date offer opens	21 December 2017
Intended date offer closes	This is a continuous offer of Ordinary Rebate Shares. The Co-operative reserves the right to refuse to accept any application or to suspend or to cease offering Ordinary Rebate Shares at its discretion.
Liabilities, fees and charges	See the 'Shareholding requirements' section below for details. This includes the obligation to subscribe for further Ordinary Rebate Shares in order to reach or maintain the required Quota Shareholding – see part (iii) of that section below. Other than payment of the Offer Price set out above and the obligation (if any) to subscribe for further shares to meet the share quota, there are no other fees or charges.
Shareholding requirements	<p>(i) <i>Minimum Shareholding</i></p> <p>Under the Constitution the Board may set a Minimum Shareholding (being the minimum number of Ordinary Rebate Shares required to be held by Transacting Shareholders to be eligible for rebates). The Board may alter the Minimum Shareholding from time to time at its discretion. At the date of this Product Disclosure Statement (PDS) the Minimum Shareholding requirement is 1,000 Ordinary Rebate Shares for all shareholders.</p> <p>(ii) <i>Quota Shareholding</i></p> <p>Should a new shareholder be allotted and accept Ordinary Rebate Shares, they should be aware the Constitution allows the Board to set a Quota Shareholding. The quota aims to ensure a shareholder holds the appropriate number of shares relative to the kilograms of wool transacted through CP Wool or subsidiaries. A shareholder can hold more Ordinary Rebate Shares than are required relative to their wool volumes. They can also find themselves holding less Ordinary Rebate Shares than are required relative to their wool volumes because they have undersubscribed or because their wool volumes have increased. At the date of this PDS, the number of Ordinary Rebate Shares required to be held by each Transacting Shareholder as their quota shareholding is 1 fully paid Ordinary Rebate Share for every 5kgs of wool auctioned or tendered through CP Wool or supplied to NZ Yarn during CP Wool's financial year.</p>
Shareholding requirements	The Board may from time to time vary the number of shares required to be held by each Transacting Shareholder as their Quota Shareholding and/or alter any method, period or other factor used as the

(continued)	<p>basis (or part of the basis) in calculating the Quota Shareholding from that previously applying.</p> <p><i>(iii) Allotment of further Ordinary Rebate Shares</i> The Board may unilaterally allot sufficient further Ordinary Rebate Shares to any Transacting Shareholder, where the shareholder does not meet their Quota Shareholding or in order to maintain the Quota Shareholding of that Transacting Shareholder.</p> <p>Transacting Shareholders are required to pay for these further Ordinary Rebate Shares.</p> <p>The Board is entitled to apply rebates payable to a Transacting Shareholder towards payment for these further Ordinary Rebate Shares before any balance is paid to the Transacting Shareholder.</p> <p>While the Constitution allows the Board to require them to acquire and pay for further shares to address any shortfall, the normal approach has been to reduce the shortfall progressively by rebates earned being retained and converted to additional shares rather than the rebate being paid out. Refer to the "Rebates and other distributions" section that follows.</p>
Rebates and other distributions	<p>The Constitution gives the Board the discretion to declare or not declare a distribution from the Co-operative to holders of any class of shares in respect of any Financial Year (currently being the year commencing on 1 July and ending on 30 June). While all holders of the same class of shares will receive distributions calculated using the same formula, not all classes of shares may receive all forms of distribution. For example, holders of Ordinary Rebate Shares may receive rebates while holders of other classes may receive dividends. The Constitution gives the Board wide discretion about what distributions will be made (if any), how they will be calculated, when they will be paid and to which class of share they will be distributed. Distributions are not guaranteed, are at the discretion of the directors, and will be declared only after meeting appropriate solvency requirements.</p> <p><u>Calculation of distributions for Ordinary Rebate Shares</u> Historically returns on Ordinary Rebate Shares have been in the form of rebates and less often, dividends. In recent years returns have been solely via rebates. This is likely to continue to be the preferred method of distribution because rebates are linked to the trading activities of Transacting Shareholders. No dividends have been paid on Ordinary Rebate Shares in the specified period to the date of this PDS.</p> <p>Rebates are typically calculated on the basis of the level of transactions between CP Wool and the Transacting Shareholder in respect of the relevant Financial Year. The Board has wide discretion to determine how this calculation is to be made, and is entitled to set different rebate rates having regard to factors considered appropriate by the Board.</p> <p><u>Qualifying products</u> Only certain products supplied to CP Wool qualify for inclusion in rebate calculations. At the date of this PDS only wool transacted through CP Wool auctions or tenders, or supplied direct to NZ Yarn qualifies for inclusion in rebate calculations.</p> <p><u>Payment of rebates</u> Rebates may be paid in cash (directly to the nominated bank account of the holder), bonus Ordinary Rebate Shares, or a combination of both. Where Rebates are paid in cash, the Board may require, at its sole discretion, that part or all of the cash is first applied towards ensuring each Transacting Shareholder has reached their Quota Shareholding (see the previous 'Shareholding requirements' section for what this means). Rebates (if any) are determined by the Board following the end of each Financial Year. Rebates paid in cash are generally paid after the completion of the audit and prior to the Annual General Meeting.</p>

How you can get your money out

The Co-operative does not intend to quote the Ordinary Rebate Shares on a market licensed in New Zealand and there is no other established market for trading them. This means that you may not be able to sell your Ordinary Rebate Shares.

In general, persons investing in shares in a co-operative company do so in order to transact with the company and to be entitled to rebates based on their trading with the company, or to dividends based on the value of their investment, rather than to obtain capital gains in the value of the shares. Holders of Ordinary Rebate Shares are unlikely to be able to transfer or surrender their Ordinary Rebate Shares for more than the nominal value of \$1.00 per share.

Where you cease to be a Transacting Shareholder of the Co-operative you may be able to transfer your Ordinary Rebate Shares to a person who is, or will become, a Transacting Shareholder of the Co-operative. This is subject to the Board's approval. You may surrender your Ordinary Rebate Shares in a number of situations. See Section 6 (Key Features of Ordinary Rebate Shares) for full details of these. In broad terms these include where the holder:

- has died and the shares are held by their estate, and their personal representative is not a transacting shareholder of the Co-operative;
- has ceased to be a transacting shareholder of the Co-operative

You may be required to surrender your Ordinary Rebate Shares in certain circumstances. See full details in Section 5 (Key Features of Ordinary Rebate Shares).

Any surrender is subject to the Co-operative being able to comply with any legal restrictions on surrender, including being able to meet the solvency test under the Companies Act after the surrender. When surrender is approved, the nominal value of \$1.00 per share will be paid out. The timing of the payment is at the discretion of the Directors. See also Section 5 (Key features of Ordinary Rebate Shares).

Key drivers of returns

The main income streams of the Co-operative are from CP Wool directors' fees, administration fees, interest and dividends and the main investment of the Co-operative is its shareholding in and loans to CP Wool. Information on CP Wool can be found at www.cpwool.co.nz

The Co-operative considers the current and future aspects that will have the most impact on the financial performance of the business are, and will continue to be, the returns on its investment in CP Wool.

Therefore the profitability and liquidity of CP Wool and subsidiaries are vital to maintaining these income streams, maintaining the value of the investment and providing liquidity for the repayment of the loan. The accounting value of the investment was reduced to NIL as at 30 June 2017 due to the deduction of CP Wool losses. The loan was initially provided to Elders Primary Wool Limited and subsequently transferred to CP Wool and had a balance of \$2.0M at 30 June 2017. The loan is repayable on demand but no repayments are expected in the year to 30 June 2018. As at the end of their financial year to 30 June 2017, CP Wool had negative equity of \$1.2M and was reliant on shareholder and lender support.

The key strategies for maintaining its investment in CP Wool are:

1. To take a proactive role in the governance of CP Wool and its subsidiaries
2. To promote the activities of CP Wool to New Zealand wool growers to increase CP Wool's market share
3. To identify opportunities for CP Wool to diversify and reduce its reliance on traditional New Zealand based income streams

Should the main income streams from CP Wool not be forthcoming, cashflow may rely on equity raising, loans or other avenues.

The support of the Co-operative's shareholders by putting their wool through CP Wool generates income for CP Wool which helps CP Wool be profitable and able to deliver the income streams of directors' fees, administration fees, interest and dividends to the Co-operative. Shareholders not requesting to surrender their shares in the Co-operative helps ensure funds can be used for working capital rather than for redemptions. As such, shareholder support is important to ensuring the Co-operative remains a going concern and is therefore a key driver of returns.

The support of its main lender, M B de Lautour who has lent the Co-operative \$1.75M at 30 June 2017 is also key to ensuring the Co-operative remains a going concern and therefore a key driver of returns. Mr de Lautour's loan is repayable on demand but he has provided a written assurance he will not require repayment of this loan until sufficient funds are released from CP Wool to enable payments to be made.

Key risks affecting this investment

The Co-operative considers the most significant risk factors that could affect the returns received from holding these Ordinary Rebate Shares are:

Profitability of CP Wool

The main income streams of the Co-operative are from CP Wool directors' fees, administration fees, interest and dividends. Additionally, the main investment of the Co-operative is its shareholding in and loans to CP Wool. With the heavy reliance on CP Wool for the income streams of the Co-operative, the profitability and liquidity of CP Wool and subsidiaries are vital. In turn, CP Wool is dependent on the profitability of the New Zealand wool industry. Should the demand for wool or the profitability from wool decrease which negatively affects the financial performance of CP Wool, such as the loss of \$4.3M in the year to 30 June 2017 and had negative equity of \$1.2M at 30 June 2017, it may affect the ability of the Co-operative to deliver a return on the investment. Should the profitability of CP Wool suffer markedly, the CP Wool income streams to the Co-operative may be significantly reduced or may cease to exist, and/or the CP Wool loan to the Co-operative may be unable to be repaid. Any of these events may prevent the Co-operative delivering some or any returns to shareholders, may prevent the Co-operative paying shareholders that surrender their shares and could ultimately result in CP Wool or the Co-operative being wound up.

Lack of control over CP Wool

As the Co-operative's main investment is in CP Wool and its profitability and liquidity is intrinsically linked to that of CP Wool, it is important for the Co-operative to be able to exercise influence over the governance, direction, investments and activities of CP Wool to ensure decisions are in the best interests of Co-operative shareholders and are most likely to deliver the CP Wool income streams on which the Co-operative relies. Should the Co-operative be unable to do this, the CP Wool income streams to the Co-operative may be significantly reduced or may cease to exist which may prevent the Co-operative delivering some or any returns to shareholders, may prevent the Co-operative paying shareholders that surrender their shares, or may ultimately result in CP Wool or the Co-operative being wound up. This is considered a significant risk factor because the profitability of CP

Wool is vital to the Co-operative, and because CP Wool made a loss of \$4.3M in the year to 30 June 2017 and had negative equity of \$1.2M at 30 June 2017.

CP Wool solvency

Should events occur that lead to CP Wool's insolvency, the CP Wool income streams to the Co-operative may be significantly reduced or may cease to exist, and/or the CP Wool loan to the Co-operative may be unable to be repaid. Any of these events may prevent the Co-operative delivering some or any returns to shareholders, may prevent the Co-operative paying shareholders that surrender their shares, or may ultimately result in CP Wool or the Co-operative being wound up. The audited financial statements of CP Wool at 30 June 2017 CP Wool showed \$13M Assets and \$14M Liabilities. Continued support of bankers and shareholders meant it continued to be able to pay its debts and meet the going concern test to the satisfaction of its auditors. This is considered a significant risk factor because the solvency of CP Wool is vital to the Co-operative, any negative impact on CP Wool's solvency raises the potential magnitude of the risk to the Co-operative.

Maintaining the Co-operative as a going concern

All companies need to maintain their going concern status. Should continuing CP Wool losses, in particular, erode the accounting value of the Co-operative's investment in CP Wool or the value of its loan to CP Wool, the Co-operative may need to maintain its going concern status by issuing new shares or converting existing loans to equity. Should the Co-operative be unable to do this, the Co-operative may be legally unable to continue which may prevent the Co-operative delivering some or any returns to shareholders, may prevent the Co-operative paying shareholders that surrender their shares, or may ultimately result in CP Wool or the Co-operative being wound up. Because in the financial year to 30 June 2017 the Co-operative made a loss of \$2.4M, its share of the CP Wool loss reduced the accounting value of its investment in CP Wool to NIL, reduced the accounting value of its loan to CP Wool to \$2M and reduced the Co-operative's equity from \$2.4M to \$473,345, this is considered to be a significant risk factor.

Loan repayment demands

The Co-operative has loans from M B de Lautour that are repayable on demand. Mr de Lautour has agreed these loans will not be repaid until the Directors of PWC agree to do so. Should these be called when the Co-operative is unable to pay them, it could make the Co-operative insolvent which would likely prevent the Co-operative delivering some or any returns to shareholders.

Similarly, both the Co-operative and the other joint venture partner, Carrfields Limited have loans to CP Wool. Should either partner call these loans and CP Wool is unable to pay them, it could make CP Wool insolvent in which case the CP Wool income streams to the Co-operative may cease to exist which would likely prevent the Co-operative delivering some or any returns to shareholders, or may ultimately result in CP Wool or the Co-operative being wound up.

At 30 June 2017, CP Wool also had bank funding, trade loans, trade payables and other current liabilities of \$9.5M in addition to the loans from the Co-operative and from the other joint venture partner. Should CP Wool be unable to pay these debts as they fall due it could make CP Wool insolvent in which case the CP Wool income streams to the Co-operative may cease to exist which would likely prevent the Co-operative delivering some or any returns to shareholders, or may ultimately result in CP Wool or the Co-operative being wound up.

Share redemptions

You can only redeem your Ordinary Rebate Shares with the approval of the Board at its absolute discretion. If the Board does not approve a redemption you may not be able to recover the purchase price you paid for the Ordinary Rebate Shares until such time as the redemption is approved.

At 30 June 2017 M B de Lautour and H B de Lautour held Redeemable Preference Shares of \$455,739 and \$47,500 respectively. In the event of the company winding up, all shares (Ordinary and Ordinary Rebate Shares) participate equally in the distribution of any surplus assets after the repayment of Redeemable Preference Shares. Therefore, should the Co-operative be wound up and the Redeemable Preference Shares paid out, it could leave insufficient funds to pay out other shareholders, either partially or fully. Repayment of Redeemable Preference Shares are at the discretion of the Board and the decision to repay Redeemable Preference Shares may prevent the Co-operative delivering some or any returns to shareholders.

The magnitude of this risk is only high if the Co-operative redeems Redeemable Preference Shares and is then wound up with insufficient funds to redeem other shares. Therefore the likelihood and magnitude of this risk are directly related to the likelihood and magnitude of the risk of maintaining the Co-operative as a going concern, addressed earlier. Because in the financial year to 30 June 2017 the Co-operative made a loss of \$2.4M, its share of the CP Wool loss reduced the accounting value of its investment in CP Wool to NIL, reduced the accounting value of its loan to CP Wool to \$2M and reduced the Co-operative's equity from \$2.4M to \$473,345, this is considered to be a significant risk factor.

This summary does not cover all of the risks of investing in Ordinary Rebate Shares. You should also read Section 7 (Risks to the Co-operative's Business). That section includes the mitigation strategies adopted by the Co-operative in relation to particular risks.

Where you can find Primary Wool Co-operative's financial information

The financial position and performance of the Co-operative are essential to an assessment of this offer. You should also read Section 6 (the Co-operative's Financial Information).

Table of Contents

Section Number and Title		Page
1	Key Information Summary (KIS)	3 to 6
	Letter from the Co-operative Chairman	8 & 9
2	The Co-operative and what it does	10 to 14
3	Purpose of the offer	15
4	Terms of the offer	15 to 17
5	Key features of Ordinary Rebate Shares	18 to 20
6	The Co-operative's financial information	21
7	Risks to the Co-operative's business and plans	22 to 27
8	Tax	27
9	Where you can find more information	27
10	How to apply	28
11	Contact information	28
12	Glossary	29
13	Application Form	30

Letter from the Co-operative Chairman

On behalf of the Primary Wool Co-operative Limited Board, I am pleased to offer you this opportunity to subscribe for Ordinary Rebate Shares in Primary Wool Co-operative Limited.

Background

From its inception in 1974 the Primary Wool Cooperative has operated with the express strategy of getting closer to the consumer and engaging in investments aimed at lifting demand for wool.

After the McKinsey report and subsequent dissolution of the NZ Wool Board, the Cooperative negotiated but was declined the opportunity to form the foundation of the National Strongwool Entity that McKinsey recommended. Subsequently the Cooperative purchased the wool interests of CRT in the South Island which gave it national coverage and has strived to achieve the McKinsey vision.

Forming the Carrfields Primary Wool joint venture originally with Elders, now with Carrfields, has enhanced the Cooperative and brings sound commercial discipline to the business but still leaves the Cooperative totally in control of its own affairs.

From its inception, Carrfields Primary Wool had been a 50/50 joint venture between a private company and a farmer-owned co-operative. Therefore the farmer-shareholders of the Cooperative can be proud of the contribution they have made to their industry. The Cooperative is a recognised mechanism by which wool growers can further engage in their industry.

Growth, Returns and Investments

Returns to Primary Wool Cooperative shareholders since the formation of the joint venture in 2005 have been via rebates, dividends, share repayments and discounted woolpacks.

Further to direct returns for its members, the Cooperative has invested in industry-good projects such as The Campaign for Wool, National Fieldays premiere exhibition, National Wool Week and numerous other events that have been deemed to raise the profile and demand for wool.

Significant investment has been made by the Carrfields Primary Wool joint venture in expanding the logistics business, in the development of the Just Shorn® international branding programme and in the investment in NZ Yarn.

The Opportunity

The wool price will always fluctuate as the wool market takes its course, in a similar way that equivalent drivers affect milk, beef or grain. Our challenge is to become increasingly less reliant on the commodity market. That means chasing the rewards from within the supply chain that historically wool growers have been denied because neither the strategy nor the investment have been in place to achieve them.

In Carrfields Primary Wool we have the clear strategy to seek these rewards. We also have the structure, through the Cooperative model that has been in place since 1974, to return those rewards, if obtained, to growers willing to invest in the strategy.

Carrfields Primary Wool have launched a new business entity in the USA – CP Wool North America Inc – to facilitate the design and production of high end carpets and rugs made from Carrfields Primary Wool grower wool and spun by NZ Yarn. CP Wool North America has partnered with a major hard flooring retail company in the USA to provide them with a soft flooring line sourced under the Just Shorn® brand. Under the partnership, Carrfields Primary Wool will share directly in the retail profits.

Your Involvement in the Opportunity

As we ultimately move investment into the retail end of the supply chain where the greatest value is added, the Cooperative wants to continue to stand up and utilise the strength of its structure whereby many members can create a far greater opportunity than any one by themselves.

It is very easy to sit on the sideline and expect everyone else to make the investment but that has never been your Cooperative's way.

Your Board of Directors have worked extremely hard to get to this exciting watershed in the way returns from your industry are channelled back to you and we trust you will respond with the leadership this industry is searching for.

We therefore welcome your interest in becoming a holder of Ordinary Rebate Shares.

Kind regards

A handwritten signature in black ink, appearing to read 'M. B. de Lautour'.

Bay de Lautour, Chairman of Directors

2. The Co-operative and what it does

Overview

The relationship between the Co-operative and CP Wool

The Co-operative as the issuer of the equity securities is a farmer-owned wool co-operative with a 50% shareholding in Carrfields Primary Wool Limited and subsidiaries (*CP Wool*).

The Co-operative does not trade itself. Its main income streams are from CP Wool directors' fees, administration fees, interest and dividends and its main investment is its shareholding in and loan to CP Wool.

CP Wool and the Co-operative are different

CP Wool is not a subsidiary of the Co-operative but rather is an equal 50/50 joint venture with each shareholder (Carrfields Limited and Primary Wool Cooperative Ltd) sharing equal control and ownership. However, CP Wool is the only significant asset of the Co-operative and some of the returns to Co-operative shareholders such as rebates are linked to their wool transactions with CP Wool.

What CP Wool does

The CP Wool joint venture incorporates much of the wool supply chain including broking (testing, warehousing and preparing wool for sale), owns the international brand programme Just Shorn[®] and has a majority shareholding in NZ Yarn Limited.

How the Co-operative may be affected by CP Wool's result

The Co-operative does not trade itself but is an investment vehicle to enable farmer-shareholders to share in industry ownership and potential wool returns beyond the farm gate. Because the results of CP Wool are dependent on the performance of the New Zealand wool industry, the results of the Co-operative are also dependent on the performance of the New Zealand wool industry. The wool industry can have good years and bad years. CP Wool made profits in each of the 7 years from 2010 to 2016 but has made a loss of \$4.3m in the year to 30 June 2017. The Co-operative itself is currently a loss making entity. While the causes of these losses are being addressed and have or are being turned around, as a 50% shareholder in CP Wool, both of these have a negative impact on the financial results of the Co-operative.

The Co-operative's loan to CP Wool

At the date of this PDS the Co-operative had loaned CP Wool \$2.3M, as had the other joint venture partner. Interest at 10%pa is paid quarterly on these loans.

CP Wool's results directly impact the Co-operative

The Co-operative considers the current and future aspects that will have the most impact on the financial performance of the business are, and will continue to be, the returns on its investment in CP Wool.

Therefore the profitability and liquidity of CP Wool and subsidiaries are vital to maintaining these income streams, maintaining the value of the investment and providing liquidity for the repayment of the loan.

The key strategies for maintaining its investment in CP Wool are:

1. To take a proactive role in the governance of CP Wool and its subsidiaries
2. To promote the activities of CP Wool to New Zealand wool growers to increase CP Wool's market share

3. To identify opportunities for CP Wool to diversify and reduce its reliance on traditional New Zealand based income streams
4. To encourage New Zealand wool growers to supply the types, quality and quantity of wool that enable new business opportunities to be met
5. To ensure shareholder and lender support for CP Wool and the Co-operative continue

Industry sector

The Co-operative operates within the agriculture sector.

The Co-operative's legal status

The Co-operative was incorporated under the Companies Act 1955 on 27 September 1979, re-registered as a Co-operative Company under the Co-operative Companies Act 1956 on 20 December 1979, was simultaneously re-registered as a Co-operative Company under the Co-operative Companies Act 1996, and pursuant to the Companies Re-Registration Act 1993 as a Company under the Companies Act 1993 on 26 June 1997. The registration number is 165603.

The Co-operative's Board

The business and affairs of the Co-operative are conducted by a board of directors (*the Board*), the members of which are detailed below.

The Co-operative's shareholding

The only shareholding held by the Co-operative is in CP Wool as a 50/50 joint venture partner as follows:

Joint venture companies	Place of incorporation	Co-operative interest	Principal activity
Carrfields Primary Wool Limited	New Zealand	50%	Wool broking

The Co-operative has been a 50% shareholder since the inception of the joint venture (formerly called Elders Primary Wool Ltd) in 2005.

CP Wool's shareholdings

CP Wool itself, not the Co-operative, holds interests in the following entities:

Company	Place of incorporation	CP Wool interest	Year formed	Principal activity
Wool Marketing Enterprises Limited	New Zealand	100%	2008	International brand development
Wool Exports NZ Limited	New Zealand	100%	2015	Wool exporting
NZ Yarn Limited	New Zealand	68%	2014	Wool spinning
Carrfields Primary Wool North America, Inc	United States	100%	2016	International brand and product facilitation and marketing

Directors

The Co-operative's Board comprises:

Maurice Bayly (Bay) de Lautour, Chairman
Howard (Howie) Clyde Gardner, Deputy Chairman
Hamish Bayly de Lautour
Janette Ruth Osborne

Management and employees

The Co-operative does not employ any staff. All administrative and secretarial functions are performed by Solution Integration Ltd, Palmerston North, represented by its managing director, Alan White.

Therefore no employees or former employees of the Co-operative, not being directors of the Co-operative, during the most recent period, received remuneration or any other benefits in their capacity as employees that in value exceeded \$100,000 per annum.

Substantial shareholders and relevant interests held by directors

There are no Co-operative shareholders of any class of equity security, being Ordinary Shares, Ordinary Rebate Shares or Redeemable Preference Shares, that, during the 20 working day period prior to the date of this PDS, held relevant interests in 5% or more of the Ordinary Rebate Shares on issue.

Co-operative shareholdings associated with the directors as at 20 days prior to the issue of this PDS, are:

Director	Shares in the name of	Shares held before & after Issue	Class of Shares	% of Share Class		% of Total Shares	
				Before Issue	After Issue	Before Issue	After Issue
Bay de Lautour	MB de Lautour Enterprises	76,332	Ordinary Shares	12%	12%	2%	2%
Bay de Lautour	MB de Lautour Enterprises	500	Ordinary Rebate Shares	0.01%	0.01%	0.01%	0.01%
Bay de Lautour	MB de Lautour Enterprises	455,739	Class A Redeemable Preference Shares	100%	100%	9%	9%
Howie Gardner	Awakiki Ridges Ltd	12,668	Ordinary Rebate Shares	0.3%	0.3%	0.2%	0.2%
Hamish de Lautour	Te Whangai Partnership	22,677	Ordinary Rebate Shares	0.6%	0.6%	0.4%	0.4%
Hamish de Lautour	Te Whangai Partnership	47,500	Class B Redeemable Preference Shares	100%	100%	1%	1%
Janette Osborne	Te Toko Station	4,963	Ordinary Rebate Shares	0.1%	0.1%	0.1%	0.1%

Therefore, entities associated with Bay de Lautour hold 532,571 shares at the date of this PDS, equivalent to 11% of the total number of shares of the Co-operative. Of these, 455,739 shares are Class A Redeemable Preference Shares at \$1 per share arising from historical loans and advances that were converted to equity prior to 2007. Because the Constitution provides for a 20,000 voting cap per shareholder, Bay's higher shareholding does not convey any more voting rights than those afforded to other large shareholders.

All Ordinary Rebate Shares held by the Co-operative's directors have been acquired by the directors in their capacity as Transacting Shareholders of the Co-operative.

Other equity securities of issuer

The Constitution permits the Board to issue other classes of equity securities that would rank equally with, or in priority to, the Ordinary Rebate Shares in the event of a liquidation and payment of dividends without a special resolution of the holders of the equity securities on offer.

However, the Companies Act requires the Board to be satisfied that the terms and consideration of any such issue are fair and reasonable to the Co-operative and all existing shareholders.

The Ordinary Rebate Shares covered by this continuous offer Product Disclosure Statement dated 21 December 2017 is the only current proposal to issue equity securities.

Existing Ordinary Shares and Ordinary Rebate Shares already held by shareholders will rank equally in the event of a liquidation and payment of dividends with new Ordinary Rebate Shares issued under this PDS.

Class A Redeemable Preference Shares and Class B Redeemable Preference Shares rank ahead of Ordinary Shares and Ordinary Rebate Shares in the event of a liquidation and payment of dividends.

As at the date of this PDS, shares on issue were:

Ordinary Shares	612,470 shares
Ordinary Rebate Shares	3,679,640 shares
Class A Redeemable Preference Shares	455,739 shares
Class B Redeemable Preference Shares	47,500 shares

Neither class of Redeemable Preference Share carries any additional or preferential voting rights. Therefore, regardless of whether a shareholder holds Ordinary Shares, Ordinary Rebate Shares or Redeemable Preference Shares, each share carries one vote up to a maximum of 20,000 votes per shareholder.

Director remuneration and benefits

The director's fees, interest on loans, rebates and Redeemable Preference Share repayments, being the only remuneration or benefits received by each director of the Co-operative during the most recent period (being FY2017) were:

<u>Director</u>	<u>Directors Fees</u>	<u>Interest</u>	<u>Rebates</u>	<u>Share Repayments</u>
Bay de Lautour	\$35,000	\$69,505	\$0	\$26,000
Howie Gardner	\$25,000	\$822	\$764	\$0
Hamish de Lautour	\$25,000	\$822	\$1,473	\$0
Janette Osborne	\$0	\$0	\$245	\$0

All services provided by each director of the Co-operative during the most recent period were provided in their capacity as a director.

The directors are all transacting shareholders of the Co-operative, either individually or through entities they control. Their transactions as shareholders are treated the same as all other shareholders.

Bay and Howie sit on the Board of Carrfields Primary Wool Limited, Wool Marketing Enterprises Limited and Wool Exports NZ Limited. The other directors on each of these are appointed by the other joint venture shareholder, Carrfields Limited. At the date of this PDS, Howie is Chairman of Carrfields Primary Wool Limited but under their shareholder agreement all directors have an equal vote and the Chairman does not have a casting vote therefore the Co-operative does not exercise control over CP Wool.

Howie is a director of Carrfields Primary Wool North America, Inc along with three other directors.

Hamish sits on the Board of NZ Yarn Limited along with three other directors.

Hamish has a 2.67% interest in NZ Yarn Limited and Bay has a 1.33% interest in NZ Yarn Limited. None of the directors have a personal interest in CP Wool or its subsidiaries.

At the date of this PDS, the directors or their associated entities have advanced loans to the Co-operative as follows:

Bay de Lautour	\$1,650,000 (advanced prior to 2017)
Bay de Lautour	\$100,000 (advanced in 2017)
Howie Gardner	\$100,000 (advanced in 2017)
Hamish de Lautour	\$100,000 (advanced in 2017)
Janette Osborne	\$NIL

These loans are unsecured and are for an undefined term, with a current interest rate of 5% in relation to the loans advanced prior to 2017 and 6% for those advanced in 2017. With the largest one, Bay de Lautour, at the end of the preceding four financial years, has confirmed in writing to the Co-operative's auditor that he will not require repayment until the Directors of the Co-operative agree to do so. This is to confirm his stated position and to enable the auditors to form an opinion on going concern. While there is no legal requirement for him to do so, while he continues with this approach it reduces the liquidity risk to the Co-operative.

3. Purpose of the offer

The purpose of this offer is to facilitate the offer and allotment of Ordinary Rebate Shares to persons who are, or who are intending to be, Transacting Shareholders of the Co-operative.

Transacting Shareholders has the meaning given to that term in section 4 of the Co-Operative Companies Act 1996) and in the case of the Co-operative, is someone able to supply wool to CP Wool.

Money raised under the offer of Ordinary Rebate Shares will be used as general funds (including for working capital requirements, repayment of loans, or payment for surrendered shares) rather than for a specific activity.

4. Terms of the offer

Description of the equity securities	Ordinary Rebate Shares
Price per share	\$1.00
Intended date offer opens	21 December 2017
Intended date offer closes	This is a continuous offer of Ordinary Rebate Shares. The Co-operative reserves the right to refuse to accept any application or to suspend or to cease offering Ordinary Rebate Shares at its discretion.
Liabilities, fees and charges	See the 'Shareholding requirements' section below for details. This includes the obligation to subscribe for further Ordinary Rebate Shares in order to reach or maintain the required Quota Shareholding – see part (iii) of that section below. Other than payment of the Offer Price set out above and the obligation (if any) to subscribe for further shares to meet the share quota, there are no other fees or charges.
Shareholding requirements	<p><i>(i) Minimum Shareholding</i></p> <p>Under the Constitution the Board may set a Minimum Shareholding (being the minimum number of Ordinary Rebate Shares required to be held by Transacting Shareholders to be eligible for rebates). The Board may alter the Minimum Shareholding from time to time at its discretion. At the date of this Product Disclosure Statement (PDS) the Minimum Shareholding requirement is 1,000 Ordinary Rebate Shares for all shareholders.</p> <p><i>(ii) Quota Shareholding</i></p> <p>Should a new shareholder be allotted and accept Ordinary Rebate Shares, they should be aware the Constitution allows the Board to set a Quota Shareholding. The quota aims to ensure a shareholder holds the appropriate number of shares relative to the kilograms of wool transacted through CP Wool or subsidiaries. A shareholder can hold more Ordinary Rebate Shares than are required relative to their wool volumes. They can also find themselves holding less Ordinary Rebate Shares than are required relative to their wool volumes because they have undersubscribed or because their wool volumes have increased. At the date of this PDS, the number of Ordinary Rebate Shares required to be held by each Transacting Shareholder as their quota shareholding is 1 fully paid Ordinary Rebate Share for every 5kgs of wool auctioned or tendered through CP Wool or supplied to NZ Yarn during CP Wool's financial year.</p> <p>The Board may from time to time vary the number of shares required to be held by each Transacting Shareholder as their Quota Shareholding and/or alter any method, period or other factor used as the basis (or part of the basis) in calculating the Quota Shareholding from that previously applying.</p>

<p>Shareholding requirements (continued)</p>	<p><i>(iii) Allotment of further Ordinary Rebate Shares</i></p> <p>The Board may unilaterally allot sufficient further Ordinary Rebate Shares to any Transacting Shareholder, where the shareholder does not meet their Quota Shareholding or in order to maintain the Quota Shareholding of that Transacting Shareholder.</p> <p>Transacting Shareholders are required to pay for these further Ordinary Rebate Shares.</p> <p>The Board is entitled to apply rebates payable to a Transacting Shareholder towards payment for these further Ordinary Rebate Shares before any balance is paid to the Transacting Shareholder.</p> <p>While the Constitution allows the Board to require them to acquire and pay for further shares to address any shortfall, the normal approach has been to reduce the shortfall progressively by rebates earned being retained and converted to additional shares rather than the rebate being paid out. Refer to the "Rebates and other distributions" section that follows.</p>
<p>Rebates and other distributions</p>	<p>The Constitution gives the Board the discretion to declare or not declare a distribution from the Co-operative to holders of any class of shares in respect of any Financial Year (currently being the year commencing on 1 July and ending on 30 June). While all holders of the same class of shares will receive distributions calculated using the same formula, not all classes of shares may receive all forms of distribution. For example, holders of Ordinary Rebate Shares may receive rebates while holders of other classes may receive dividends. The Constitution gives the Board wide discretion about what distributions will be made (if any), how they will be calculated, when they will be paid and to which class of share they will be distributed. Distributions are not guaranteed, are at the discretion of the directors, and will be declared only after meeting appropriate solvency requirements.</p> <p><u>Calculation of distributions for Ordinary Rebate Shares</u></p> <p>Historically returns on Ordinary Rebate Shares have been in the form of rebates and less often, dividends. However, in recent years returns have been solely via rebates. This is likely to continue to be the preferred method of distribution because rebates are linked to the trading activities of Transacting Shareholders.</p> <p>Rebates are typically calculated on the basis of the level of transactions between CP Wool and the Transacting Shareholder in respect of the relevant Financial Year. The Board has wide discretion to determine how this calculation is to be made, and is entitled to set different rebate rates having regard to factors considered appropriate by the Board.</p> <p><u>Qualifying products</u></p> <p>Only certain products supplied to CP Wool qualify for inclusion in rebate calculations. At the date of this PDS only wool transacted through CP Wool auctions or tenders, or supplied direct to NZ Yarn qualifies for inclusion in rebate calculations.</p> <p><u>Payment of rebates</u></p> <p>Rebates may be paid in cash (directly to the nominated bank account of the holder), bonus Ordinary Rebate Shares, or a combination of both. Where Rebates are paid in cash, the Board may require, at its sole discretion, that part or all of the cash is first applied towards ensuring each Transacting Shareholder has reached their Quota Shareholding (see the previous 'Shareholding requirements' section for what this means). Rebates (if any) are determined by the Board following the end of each Financial Year. Rebates paid in cash are generally paid after the completion of the audit and prior to the Annual General Meeting.</p>

Price of Ordinary Rebate Shares

The price of the Ordinary Rebate Shares is set at \$1.00 per Ordinary Rebate Share. This is the nominal value of the Ordinary Rebate Shares.

Constitution

Further information relating to the Co-operative and its Ordinary Rebate Shares, including the Constitution, is available on the offer register at www.business.govt.nz/disclose.

5. Key features of Ordinary Rebate Shares

Shareholding requirements

Allotment of Ordinary Rebate Shares and quota shareholding	<p><u>Quota Shareholding for Ordinary Rebate Shares</u></p> <p>Should a new shareholder be allotted and accept Ordinary Rebate Shares, they should be aware the Constitution allows the Board to set a Quota Shareholding.</p> <p>The quota aims to ensure a shareholder holds the appropriate number of shares relative to the kilograms of wool transacted through CP Wool in each financial year of the Co-operative, currently being the 12 months between 1 July and 30 June.</p> <p>The Board may from time to time vary the number of shares required to be held by each Transacting Shareholder as their Quota Shareholding and alter any method, period or other factor used as the basis (or part of the basis) in calculating the Quota Shareholding from that previously applying.</p> <p>A shareholder can hold more Ordinary Rebate Shares than are required relative to their wool volumes. They can also find themselves holding less Ordinary Rebate Shares than are required relative to their wool volumes because they have undersubscribed or because their wool volumes have increased.</p> <p>At the date of this PDS, the number of Ordinary Rebate Shares required to be held by each Transacting Shareholder as their quota shareholding is 1 fully paid Ordinary Rebate Share for every 5kgs of wool auctioned or tendered through CP Wool or supplied to NZ Yarn during CP Wool's financial year.</p> <p><u>Allotment of further Ordinary Rebate Shares</u></p> <p>The Board may unilaterally allot sufficient further Ordinary Rebate Shares to any Transacting Shareholder, where the shareholder does not meet their Quota Shareholding or in order to maintain the Quota Shareholding of that Transacting Shareholder.</p> <p>Transacting Shareholders are required to pay for these further Ordinary Rebate Shares.</p> <p>The Board is entitled to apply rebates payable to a Transacting Shareholder towards payment for these further Ordinary Rebate Shares before any balance is paid to the Transacting Shareholder.</p> <p>Immediately following the end of each financial year, once the wool volumes for the final month of the financial year are known, the annual rebates are calculated in accordance with the formula approved by the Board. Shareholders will receive a Rebate Statement showing how the annual rebates have been calculated and whether these are to be paid out or, for those shareholders that do not meet the quota shareholding, retained and converted to additional Ordinary Rebate Shares of \$1 each.</p> <p>While the Constitution allows the Board to require them to acquire and pay for further shares to address any shortfall, the normal approach has been to reduce the shortfall progressively by rebates earned being retained and converted to additional shares rather than the rebate being paid out. Refer to the "Rebates and other distributions" section that follows.</p>
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Rights attaching to Ordinary Rebate Shares

In addition to the key terms applying to Ordinary Rebate Shares already set out in the KIS and in Section 4, each Ordinary Rebate Shares has the following rights attaching to them.

- i. The right to an equal share in the distribution of the surplus assets of the Co-operative after repayment of Redeemable Preference Shares.
- ii. The right to an equal share in dividends authorised by the Board for Ordinary Rebate Shares.
- iii. The right to one vote per share (up to a maximum of 20,000 votes per shareholder) on a poll at a meeting of the Co-operative shareholders (for example in relation to a major transaction under the Companies Act).

Rebates and other distributions

Rebates and other distributions	<p>The Constitution gives the Board the discretion to declare or not declare a distribution from the Co-operative to holders of any class of shares in respect of any Financial Year (currently being the year commencing on 1 July and ending on 30 June). While all holders of the same class of shares will receive distributions calculated using the same formula, not all classes of shares may receive all forms of distribution or any distribution at all. For example, holders of Ordinary Rebate Shares may receive rebates while holders of other classes may receive dividends. The Constitution gives the Board wide discretion about what distributions will be made (if any), how they will be calculated, when they will be paid and to which class of share they will be distributed. Distributions are not guaranteed, are at the discretion of the directors, and will be declared only after meeting appropriate solvency requirements.</p> <p><u>Calculation of distributions for Ordinary Rebate Shares</u> Historically returns on Ordinary Rebate Shares have been in the form of rebates and less often, dividends. However, in recent years returns have been solely via rebates. This is likely to continue to be the preferred method of distribution because rebates are linked to the trading activities of Transacting Shareholders. No dividends have been paid on Ordinary Rebate Shares in the specified period.</p> <p>Rebates are typically calculated on the basis of the level of transactions between CP Wool and the Transacting Shareholder in respect of the relevant Financial Year. The Board has wide discretion to determine how this calculation is to be made, and is entitled to set different rebate rates having regard to factors considered appropriate by the Board.</p> <p><u>Qualifying products</u> Only certain products supplied to CP Wool qualify for inclusion in rebate calculations. At the date of this PDS only wool transacted through CP Wool auctions or tenders, or supplied direct to NZ Yarn qualifies for inclusion in rebate calculations.</p> <p><u>Payment of rebates</u> Rebates may be paid in cash (directly to the nominated bank account of the holder), bonus Ordinary Rebate Shares, or a combination of both. Where Rebates are paid in cash, the Board may require, at its sole discretion, that part or all of the cash is first applied towards ensuring each Transacting Shareholder has reached their Quota Shareholding (see the previous 'Shareholding requirements' section for what this means). Rebates (if any) are determined by the Board following the end of each Financial Year. Rebates paid in cash are generally paid after the completion of the audit and prior to the Annual General Meeting.</p>
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Transfer or Surrender of Ordinary Rebate Shares

The Co-operative does not intend to quote the Ordinary Rebate Shares on a market licensed in New Zealand and there is no other established market for trading them. This means that you may not be able to sell your Ordinary Rebate Shares.

In general, persons investing in shares in a co-operative company do so in order to transact with the company and to be entitled to rebates based on their trading with the company, or to dividends based on the value of their investment, rather than to obtain capital gains in the value of the shares. Holders of Ordinary Rebate Shares are unlikely to be able to transfer or surrender their Ordinary Rebate Shares for more than the nominal value of \$1.00 per share.

The following sections outline the circumstances in which you may choose to transfer or surrender your Ordinary Rebate Shares or where the Co-operative may require you to surrender them.

Where you choose to transfer

Where you cease to be a Transacting Shareholder of the Co-operative, or if you choose to do so for any other reason, you may be able to transfer some or all of your Ordinary Rebate Shares to a person or persons who are, or will become, Transacting Shareholders of the Co-operative. This is subject to the Board's approval.

Where you choose to surrender

You may request the surrender of some or all of your Ordinary Rebate Shares if you cease to be a Transacting Shareholder of the Co-operative, or for any other reason, or for no reason, at any time. The Co-operative may agree to your request but is under no obligation to do so. In fairness to the Co-operative's other shareholders, the Co-operative will generally accumulate surrender requests and address them annually with this decision being made at the first Board meeting following the end of the Co-operative's financial year and communicated to you thereafter. If the Board agrees to your request to surrender, the timing of the payment is at the discretion of the Directors.

Where you may be required to surrender

Ordinary Rebate Shares may also be required to be surrendered by the Co-operative if you have ceased to be a Transacting Shareholder or if you have failed to comply in a material respect with the requirements relating to transactions with the Co-operative contained in any contract between yourself and the Co-operative.

Restrictions on surrender

Any surrender is subject to the Co-operative being able to comply with any legal restrictions on surrender, including being able to meet the solvency test under the Companies Act after the surrender. When surrender is approved, the nominal value of \$1.00 per share will be paid out. The timing of payment is at the discretion of the Board.

6. The Co-operative's financial information

These tables provide key financial information about the Co-operative. Full financial statements are available on the offer register at www.companiesoffice.govt.nz/disclose. If you do not understand this financial information, you can seek advice from a financial adviser or an accountant.

Selected financial information

The selected financial information for the most recent Financial Year of the Co-operative as well as the three preceding Financial Years is:

	Actual Financials			
	FY2017 (12 months to 30 June 2017)	FY2016 (12 months to 30 June 2016)	FY2015 (9 months to 30 June 2015)	FY2014 (12 months to 30 Sept 2014)
<i>All amounts are in NZD</i>				
Revenue from continuing operations	913,682	923,408	517,114	664,294
Rebates	379,704	467,042	379,100	400,174
EBITDA	-2,298,646	-392,939	405,894	233,903
Net profit (loss) after tax	-2,369,795	-422,302	368,870	184,403
Dividends	0	0	0	0
Total assets	2,517,556	4,484,674	4,769,324	4,000,572
Cash and cash equivalents	59,454	202,321	122,697	470,594
Total liabilities	2,044,211	2,031,800	1,947,663	1,921,500
Total debt	1,950,000	1,650,000	1,650,000	1,650,000
Net cash from (used in) operating activities	-418,313	-178,398	-335,575	-689,072

In the above table, FYx means the Primary Wool Co-operative Limited (*the Co-operative*) financial year. Due to a balance date change, the 2014, 2016 and 2017 financial years were for 12 months but the 2015 financial year was only for 9 months.

Full financial statements

The offer register contains full audited financial statements of the Co-operative for the most recent Financial Year of the Co-operative as well as the two preceding Financial Years.

7. Risks to the Co-operative's business and plans

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

Included in this section are:

- The Co-operative's assessment of the nature, likelihood and potential magnitude of the impact of these circumstances; and
- The strategies that exist, or that have been adopted by the Co-operative, to reduce or manage the risk of this impact arising.

This section is based on an assessment undertaken by the Co-operative at the date of this PDS.

PROFITABILITY OF CP WOOL	
Description of risk	The main income streams of the Co-operative are from CP Wool directors' fees, administration fees, interest and dividends. Additionally, the main investment of the Co-operative is its shareholding in and loans to CP Wool. With the heavy reliance on CP Wool for the income streams of the Co-operative, the profitability and liquidity of CP Wool and subsidiaries are vital. In turn, CP Wool is dependent on the profitability of the New Zealand wool industry.
Assessment of nature, likelihood and potential magnitude of risk	Should the demand for wool or the profitability from wool decrease which negatively affects the financial performance of CP Wool such as the losses incurred in the financial year to 30 June 2017, it may affect the ability of the Co-operative to deliver a return on the investment. Should the profitability of CP Wool suffer markedly, the CP Wool income streams to the Co-operative may be significantly reduced or may cease to exist, and/or the CP Wool loan to the Co-operative may be unable to be repaid. Any of these events may prevent the Co-operative delivering some or any returns to shareholders, may prevent the Co-operative paying shareholders that surrender their shares and could ultimately result in CP Wool or the Co-operative being wound up. Because the profitability of CP Wool is vital to the Co-operative and given that CP Wool made a loss of \$4.3M in the year to 30 June 2017 and had negative equity of \$1.2M at 30 June 2017, the potential magnitude of the risk to the Co-operative is high. However the mitigation strategies implemented below mean the likelihood is reduced.
Mitigation strategies	In the year to 30 June 2017, approximately \$1.5M of commission on wool sales was not earned by CP Wool. However, this could be considered a timing difference as the farmer-owned wool is still held to be sold and when sold, the delayed commission should come through. A significant portion of the CP Wool loss is due to NZ Yarn making a loss of \$2.4M to 30 June 2017. This has been addressed by appointing new management which is returning NZ Yarn to profitability with confirmed orders requiring increased production to meet increased demand. The new venture with Carlisle Wide Plank Flooring through Carrfields Primary Wool North America also uses wool supplied by CP Wool and spun by NZ Yarn which should increase the turnover and profitability of both companies. The Co-operative also aims to mitigate this risk generally by having an equal number of Co-operative directors on the CP Wool Board as the other joint venture partner to ensure CP Wool is governed in a manner that maximises potential returns for shareholders. There is a commitment to diversification to capture value further up the supply chain as evidenced by the new growth initiatives outside the traditional New Zealand-based model, focused initially on the CPW North America opportunity and Just Shorn® international brand development.

CONTROL OVER CP WOOL

Description of risk	As the Co-operative's main investment is in CP Wool and its profitability and liquidity is intrinsically linked to that of CP Wool, it is important for the Co-operative to be able to exercise influence over the governance, direction, investments and activities of CP Wool to ensure decisions are in the best interests of Co-operative shareholders and are most likely to deliver the CP Wool income streams on which the Co-operative relies.
Assessment of nature, likelihood and potential magnitude of risk	Should the profitability of CP Wool suffer markedly, the CP Wool income streams to the Co-operative may be significantly reduced or may cease to exist, and/or the CP Wool loan to the Co-operative may be unable to be repaid. Any of these events may prevent the Co-operative delivering some or any returns to shareholders, may prevent the Co-operative paying shareholders that surrender their shares and could ultimately result in CP Wool or the Co-operative being wound up. Because the profitability of CP Wool is vital to the Co-operative and given that CP Wool made a loss of \$4.3M in the year to 30 June 2017 and had negative equity of \$1.2M at 30 June 2017, the potential magnitude of the risk to the Co-operative is high. However the mitigation strategies implemented below mean the likelihood is reduced.
Mitigation strategies	The Co-operative aims to mitigate this risk by having an equal number of Co-operative directors on the CP Wool Board as the other joint venture partner which aims to ensure CP Wool is governed in a manner that maximises potential returns for shareholders. The Co-operative has chosen a joint venture partner in Carrfields Limited that has a significant experience and investment in and commitment to the New Zealand agricultural industry. The day-to-day activities are performed by Carrfields Limited under a Management and Services Agreement to outline how management tasks are to be performed. In addition, only representatives of the two joint venture partners make up the Board of CP Wool and as equal partners with equal voting rights, both are equally incentivised to manage CP Wool well.

FINANCIAL SUCCESS OF CP WOOL'S NEW VENTURES

Description of risk	CP Wool is regularly exploring new business opportunities, focused initially on the Carrfields Primary Wool North America opportunity and Just Shorn® international brand development. New ventures, when compared to 'business-as-usual' are unproven and yet their positive financial results are important to the financial performance of CP Wool.
Assessment of nature, likelihood and potential magnitude of risk	Previous trading efforts in the US market have provided significant market knowledge and awareness. Market assessments have been done over several years and alliances have been formed with leaders in the market. Market potential and the associated capital requirements have been assessed both by CP Wool and by the alliance partner Carlisle, to ensure the potential exists for a viable business. Because the profitability of CP Wool is vital to the Co-operative, any negative impact from new ventures mean the potential magnitude of the risk to the Co-operative is high. However the mitigation strategies implemented below mean the likelihood is reduced.
Mitigation strategies	The United States offers a large market but projections have been based on accessing a conservative percentage of what the CP Wool Board believe is available. Formation of CP Wool North America, Inc in December 2016 as a wholly owned and controlled subsidiary of CP Wool provides the vehicle for introducing and promoting the CP Wool products in the US market through the relationship with Carlisle Wide Plank Flooring, Inc that was launched in New York City on May 18, 2017. Investments plan to be made in inventory which should remain saleable rather than in capital assets.

CP WOOL SOLVENCY	
Description of risk	Should events occur that lead to CP Wool's insolvency, the CP Wool income streams to the Co-operative may be significantly reduced or may cease to exist, and/or the CP Wool loan to the Co-operative may be unable to be repaid.
Assessment of nature, likelihood and potential magnitude of risk	<p>Any of these events may prevent the Co-operative delivering some or any returns to shareholders and may prevent the Co-operative paying shareholders that surrender their shares.</p> <p>The audited financial statements of CP Wool at 30 June 2017 CP Wool showed \$13M Assets and \$14M Liabilities. Continued support of bankers and shareholders meant it continued to be able to pay its debts and meet the going concern test to the satisfaction of its auditors.</p> <p>Because the solvency of CP Wool is vital to the Co-operative, any negative impact on CP Wool's solvency mean the potential magnitude of the risk to the Co-operative is high.</p> <p>However the mitigation strategies implemented below mean the likelihood is reduced. However, if CP Wool's actual wool volumes, on which CP Wool's projected positive EBITDA for the year to 30 June 2018 were assessed, differed significantly, there would be a risk that CP Wool could not meet its obligations as and when they fall due without further shareholder support. If the support of bankers and shareholders was not provided, the going concern basis would not be appropriate and the likelihood of this risk increases.</p>
Mitigation strategies	<p>The following statements on going concern from the audited financial statements of CP Wool for the year to 30 June 2017 outline the mitigation strategies:</p> <ol style="list-style-type: none"> The Group's majority shareholder, Carrfields Limited, has agreed to give financial support to the group in the event that it cannot meet its obligations as they fall due The budget, which has been approved by the Board of Directors, is achievable and will result in the Group achieving a positive operating result provided that the wool market recovers and an increase in sales follows as a result

MAINTAINING THE CO-OPERATIVE AS A GOING CONCERN	
Description of risk	All companies need to maintain their going concern status. Should continuing CP Wool losses, in particular, erode the accounting value of the Co-operative's investment in CP Wool or the value of its loan to CP Wool, the Co-operative may need to maintain its going concern status by issuing new shares or converting existing loans to equity.
Assessment of nature, likelihood and potential magnitude of risk	<p>Should the Co-operative be unable to do this, the Co-operative may be legally unable to continue which may prevent the Co-operative delivering some or any returns to shareholders and may prevent the Co-operative paying shareholders that surrender their shares.</p> <p>Because in the financial year to 30 June 2017 the Co-operative made a loss of \$2.4M, its share of the CP Wool loss reduced the accounting value of its investment in CP Wool to NIL, reduced the accounting value of its loan to CP Wool to \$2M and reduced the Co-operative's equity from \$2.4M to \$473,345, the magnitude of the risk to the Co-operative must be considered high.</p> <p>However, the likelihood of this risk being realised is reduced as CP Wool has projected a positive EBITDA for the year to 30 June 2018, the value of the Co-operative's investment in CP Wool should increase. Further, the ability and willingness of Bay de Lautour to convert some of his loans to equity provides the ability to continue to meet the going concern test.</p>
Mitigation strategies	To mitigate this risk, the Board continue to monitor going concern at each Board meeting and will make changes as required to ensure the going concern tests are met.

INABILITY TO MAKE RETURNS TO SHAREHOLDERS

Description of risk	Returns to Ordinary Rebate Shareholders are envisaged to be by dividends and/or rebates. These returns will only be paid out of cash that is not retained for application to the on-going business at the discretion of the Board and pursuant to the Constitution.
Assessment of nature, likelihood and potential magnitude of risk	The Co-operative needs to be profitable to enable a dividend and/or rebate to be declared and needs liquidity to enable a dividend and/or rebate to be paid. Should either of these fail to exist, a dividend and/or rebate may be unable to be paid. In the year to 30 June 2017, the Co-operative declared a rebate but chose to convert all rebates to additional Ordinary Rebate Shares for all qualifying shareholders. While this reduced the cash paid to shareholders for that year, shareholders still received the rebate value but in additional shares rather than cash. As this situation has only recently occurred, the likelihood of the risk to the Co-operative must be considered high. However, as the average rebate value per shareholder is relatively small in relation to overall shareholder farm income, the potential magnitude of the risk to individual shareholders is low.
Mitigation strategies	As a co-operative, the Co-operative exists for the benefit of its shareholders, therefore making consistent returns to them is a priority. To reduce the risk of failing to make returns to shareholders, the Board maintain this focus. Maintaining the financial and liquidity ability to make returns to shareholders is mitigated through the financial controls outlined above.

CAPITAL/FUNDING CONSTRAINTS

Description of risk	As a co-operative, the Co-operative may have greater limitations on its ability to raise equity capital if it wished to invest in a large-scale project or initiative.
Assessment of nature, likelihood and potential magnitude of risk	This would likely require the Co-operative to rely on raising debt finance or further capital if it intended to make such an investment and is therefore dependent on the availability of debt finance or capital at the relevant time. Given the potential capital requirements of CP Wool's new ventures, the likelihood of this risk to the Co-operative is high. However, the magnitude of the risk is low as the ability to actually proceed with new ventures is always dependent on being able to fund them. As new venture business case analysis recognises this, while capital/funding constraints may dictate whether large-scale projects or initiatives proceed or the scale to which they proceed, the risk of them proceeding without sufficient funding is minimised.
Mitigation strategies	Maintain a strong discipline of ensuring new venture business case analysis considers the available funding before proceeding.

LOAN REPAYMENT DEMANDS

Description of risk	The Co-operative has loans from M B de Lautour that are repayable on demand. Similarly, both the Co-operative and the other joint venture partner have loans to CP Wool. At 30 June 2017, CP Wool also had bank funding, trade loans, trade payables and other current liabilities of \$9.5M in addition to the loans from the Co-operative and to the other joint venture partner.
Assessment of nature, likelihood and potential magnitude of risk	<p>All parties to related party loans are closely involved with governance of the Co-operative and/or of CP Wool. They recognise that loans are only repayable if cashflow supports it and if solvency tests are met. All parties to loans have demonstrated their commitment and willingness to put this in writing annually as required by auditors.</p> <p>Mr de Lautour has agreed his loans will not be repaid until the Directors of PWC agree to do so. Should these be called when the Co-operative is unable to pay them, it could make the Co-operative insolvent which would likely prevent the Co-operative delivering some or any returns to shareholders.</p> <p>Should either partner call the loans to CP Wool and CP Wool is unable to pay them, it could make CP Wool insolvent in which case the CP Wool income streams to the Co-operative may cease to exist which would likely prevent the Co-operative delivering some or any returns to shareholders.</p> <p>In terms of the bank loans and trade debt, should CP Wool be unable to pay these debts as they fall due it could make CP Wool insolvent in which case the CP Wool income streams to the Co-operative may cease to exist which would likely prevent the Co-operative delivering some or any returns to shareholders.</p> <p>Being able to exercise control over the repayment terms of the loans is vital to the liquidity of the Co-operative, therefore the risk to the Co-operative is high.</p>
Mitigation strategies	<p>The loans from the directors are from related parties who have demonstrated their support of the Co-operative over many years. When called upon annually to confirm they will not make a demand on the loans they have always been willing to do so. While it is not possible to prevent them making a demand on the loans, their proven support of the Co-operative suggests this is unlikely.</p> <p>The Board has recognised the need to diversify to increase demand for New Zealand wool in new products or countries. These are aimed to deliver profitable outcomes to ultimately provide the funds to repay loans and eliminate this risk.</p>

REDEMPTION OF ORDINARY REBATE SHARES

Description of risk	You can only redeem your Ordinary Rebate Shares with the approval of the Board at its absolute discretion.
Assessment of nature, likelihood and potential magnitude of risk	<p>If the Board does not approve a redemption you may not be able to recover the purchase price you paid for the Ordinary Rebate Shares until such time as the redemption is approved.</p> <p>The likelihood of this is low because in its 43 year history, the Co-operative has never failed to pay out a requested redemption.</p> <p>Similarly the magnitude of the risk is considered low to the Co-operative because the inability to redeem does not affect the liquidity or equity of the Co-operative.</p> <p>Similarly, the magnitude of the risk to individual shareholders is also low because the average value of an Ordinary Rebate shareholding is likely to be low compared to a shareholder's other farm assets.</p>
Mitigation strategies	As a co-operative, the Co-operative exists for the benefit of its shareholders and treating them fairly and with respect is a high priority. While there is no fixed policy, the Board recognises it is important to maintain sufficient working capital to cover normal redemption requests.

PRIORITY GIVEN TO REDEEMABLE PREFERENCE SHARES

Description of risk	At 30 June 2017 M B de Lautour and H B de Lautour held Redeemable Preference Shares of \$455,739 and \$47,500 respectively. In the event of the company winding up, all shares (Ordinary and Ordinary Rebate Shares) participate equally in the distribution of any surplus assets after the repayment of Redeemable Preference Shares. Therefore, should the Co-operative be wound up and the Redeemable Preference Shares paid out, it could leave insufficient funds to pay out other shareholders, either partially or fully.
Assessment of nature, likelihood and potential magnitude of risk	<p>Repayment of Redeemable Preference Shares are at the discretion of the Board and the decision to repay Redeemable Preference Shares may prevent the Co-operative delivering some or any returns to shareholders.</p> <p>The magnitude of this risk is only high if the Co-operative redeems Redeemable Preference Shares and is then wound up with insufficient funds to redeem other shares. Therefore the likelihood and magnitude of this risk are directly related to the likelihood and magnitude of the risk of maintaining the Co-operative as a going concern, addressed earlier. Because in the financial year to 30 June 2017 the Co-operative made a loss of \$2.4M, its share of the CP Wool loss reduced the accounting value of its investment in CP Wool to NIL, reduced the accounting value of its loan to CP Wool to \$2M and reduced the Co-operative's equity from \$2.4M to \$473,345, the magnitude of the risk of the Co-operative being wound up must be considered high.</p> <p>However, the likelihood of this risk being realised is reduced as CP Wool has projected a positive EBITDA for the year to 30 June 2018 and consequently the value of the Co-operative's investment in CP Wool should increase. Further, the proven ability and willingness of the de Lautour's not to redeem Redeemable Preference Shares unless cashflow allows further reduces the likelihood of the risk occurring.</p>
Mitigation strategies	The Board continue to assess the ability of the Co-operative to fund the redemption of Redeemable Preference Shares and only agree to redemption if it is in keeping with the wider financial viability of the Co-operative. The Board continue to monitor going concern at each Board meeting and make changes as required to ensure the going concern tests are met.

8. Tax

Tax can have significant consequences for investments. If you have queries relating to the tax consequences of investing in Ordinary Rebate Shares, you should obtain professional advice on those consequences.

9. Where you can find more information

Further information relating to the Co-operative and Ordinary Rebate Shares is available on the offer register (for example, the Constitution and the Co-operative's financial statements) at www.companiesoffice.govt.nz/disclose.

A copy of the information on the offer register is available on request to the Registrar of Financial Service Providers.

Further information relating to the Co-operative is available on the New Zealand companies register (administered by the Companies Office) at www.companiesoffice.govt.nz.

In addition, further information relating to the Co-operative is available free of charge on the Co-operative's website at www.primarywool.co.nz.

10. How to apply

Applications to subscribe for Ordinary Rebate Shares should be made by completing the application form at the end of this document or the request form at <http://primarywool.co.nz/join/>

If you are not able to access the shareholder application form online, you may contact the Administration Office on 06 353 8200 and they will send you a copy.

Completed forms can be returned to the Co-operative by post or email. Please see the contact information in Section 11.

11. Contact information

Primary Wool Co-operative Limited
Administration Office
PO Box 5343
Palmerston North 4441

Phone	06 353 8200
Facsimile	06 353 8201
Email	secretary@primarywool.co.nz

12. Glossary

In this PDS the following defined terms have the meanings set out next to them, except where the context requires otherwise.

Defined term	Meaning
Board	Board of directors of Primary Wool Co-operative Limited
Carrfields Primary Wool North America	Carrfields Primary Wool North America, Inc. A Stock Corporation registered in the State of Delaware bearing number 6243442.
Companies Act	Companies Act 1993 (as may be amended or replaced from time to time)
Constitution	Constitution of the Co-operative (as may be amended or replaced from time to time). A copy of the current constitution is contained in the online register available at www.companiesoffice.govt.nz/disclose
Co-operative Companies Act	Co-operative Companies Act 1996 (as may be amended or replaced from time to time)
CP Wool	Carrfields Primary Wool Limited (NZ registered company 1714847)
FY20xx	The Co-operative's financial year for the 12 months ending 30 June 20xx
Minimum Shareholding	The minimum number of Ordinary Rebate Shares that can be subscribed for or the number of Ordinary Rebate Shares required to be held by a Transacting Shareholder to be eligible for rebates
NZ Yarn	NZ Yarn Limited (NZ registered company 5418302)
Ordinary Rebate Shares	Ordinary nominal value shares in the Co-operative
Quota Shareholding	The number of Ordinary Rebate Shares required to be held by a Transacting Shareholder of the Co-operative based on that shareholder's activity with CP Wool or NZ Yarn. If quota shareholder is met or exceeded, rebates earned and agreed by the Board to be payable in cash (if any), will be paid out to the shareholder rather than being retained and converted to additional shares.
The Co-operative	Primary Wool Co-operative Limited (NZ registered company 165603)
Transacting Shareholder	Has the meaning given to that term in section 4 of the Co-operative Companies Act

13. Application Form

This application form relates to Ordinary Rebate Shares in Primary Wool Co-operative Limited, being offered pursuant to the Co-operative's Product Disclosure Statement dated 21 December 2017.

No. of Shares Requested ¹		CPW Acct #		CPW Rep	
Name Shares To Be In				Contact Name	
Postal Address				Postcode	
Telephone	()			Mobile	()
Email ²				Fax	()
Bank Acct ³					

- I/We confirm that I/We have received the Primary Wool Co-operative Limited Product Disclosure Statement dated 21 December 2017 (*the PDS*) with this application form and have read the PDS.
- I/We confirm, the applicant named in this Application Form, hereby apply for the number of Ordinary Rebate Shares stated above in Primary Wool Co-operative Limited at a purchase price of \$1.00 per share.
- I/We understand that the PDS is available for viewing on the company's website www.primarywool.co.nz or at its registered office at 443 Stoney Creek Road, Palmerston North 4470

Signature⁴

Signature⁴

Signature⁴

Signature⁴

Your application will be presented to the Board of Primary Wool Co-operative Limited for consideration at the next board meeting. If your application is approved you will be notified in writing.

¹Please enclose your cheque made payable to Primary Wool Co-operative Limited. At the date of this PDS, the minimum shareholding is 1,000 Ordinary Rebate Shares. To have your rebate (if any) paid out instead of converted to additional shares, your shareholding should approximate the annual kgs of wool auctioned or tendered through C P Wool or supplied to NZ Yarn divided by 5. Refer to "Shareholding Requirements" and "Rebates and other distributions" – KIS pages 3 to 6.

²The Co-operative's preference is to communicate via email to reduce administrative and postage costs. Your email address will also be added to our newsletter database so you can be kept regularly informed.

³The Co-operative's preference is to make all payments, such as rebates, by internet banking to your nominated bank account. Again this helps to reduce administrative and postage costs.

⁴All Directors / Partners / Trustees / Joint Applicants must sign as appropriate.

Please complete this form and return the original of this page only (not the entire PDS) to

The Secretary, Primary Wool Co-operative Limited
PO Box 5343, Palmerston North 4441
Email – secretary@primarywool.co.nz

Online payments can be made to Primary Wool Co-operative's
BNZ bank account number 02-0800-0137099-00