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FELTEX CARPETS LIMITED

Annual Report

For the year ended 30 June 2004



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FELTEX CARPETS LIMITED

ANNUAL REPORT

For the year ended 30 June 2004

CONTENTS

	Page
Chairman's and Chief Executive Officer's Review	3 - 8
Directory	9
Board of Directors	10 – 12
Senior Management	13 – 14
Corporate Governance Statement	15 – 16
Auditor's Report	17
Directors' Report	18
Financial Statements	
Statement of Financial Performance	19
Statement of Movements in Equity	20
Statement of Financial Position	21
Statement of Cash Flows	22 – 23
Notes to and forming part of the Financial Statements	24 – 48
Shareholder Information	49 – 50
Statutory Information	51 – 53
Trend Statement	54
Notice of Annual Meeting	55 – 56

FELTEX CARPETS LIMITED **CHAIRMAN'S AND CHIEF EXECUTIVE OFFICER'S REVIEW** **For the year ended 30 June 2004**

Financial year 2004 was an exciting year for the Company. In May 2004 the Company launched its Initial Public Offer with the previous Shareholder, Credit Suisse First Boston Asian Merchant Partners, L.P., selling its shareholding in Feltex and the Company raising a further \$50 million of new capital to assist with the redemption of the Bonds issued by Feltex in May 2003. Following the successful Initial Public Offer, the Company's shares were quoted on the New Zealand Stock Exchange on 4 June 2004.

In addition, there was an impressive improvement in the Group's financial performance for the year ended June 2004. The commitment of employees and continuing support of key business partners were major contributors to this significantly improved performance. For this support, we record our sincere appreciation.

The Group recorded a net surplus of \$11.2 million for the year ended June 2004, compared to \$6.8 million in the previous year, representing a 63.5% improvement. This performance exceeded the forecast made in the Initial Public Offer prospectus by \$1.1 million.

	FY 2004 Actual \$000	FY 2003 Actual \$000
Operating revenue	327,755	314,352
EBITDA – Before one-off items (Refer table following) (Earnings before interest, taxation, depreciation and amortisation)	46,174	31,172
EBITDA – After one-off items (Earnings before interest, taxation, depreciation and amortisation)	42,151	31,172
Net surplus	11,183	6,841

Net Profit after tax, before amortisation and one-off items, was \$27.2 million for the year ended June 2004, compared to \$8.9 million in the previous year, representing an \$18.3 million improvement.

Revenue increased to \$328 million, compared with \$314 million in the prior financial year. The increase of \$14 million represented a 4.3% improvement and is attributed to the following factors:

- An increase in sales of higher value products in the better margin segments of the market;
- Completion of the installation of the acquired and relocated spinning equipment in New Zealand, providing Feltex with additional capacity to service the middle sector of the wool carpet market;
- New products introduced into the market as a result of the investment in new tufting technology installed in June 2003. These products have been well accepted by the market and sales are above expectations; and
- Generally favourable market conditions in Australia and New Zealand.

CHAIRMAN'S AND CHIEF EXECUTIVE OFFICER'S REVIEW (Continued)

Actual operating revenue compared to the forecast operating revenue disclosed in the Initial Public Offer prospectus was \$7.7 million lower than forecast, mainly due to the following:

- Lower than forecast sales in April and May 2004, particularly in the lower price value segments of the business. The shortfall was to some extent made up by the stronger than forecast sales in the month of June 2004. Sales were below forecast in the fourth quarter; however the Group achieved a superior product mix of sales, yielding higher than forecast margins; and
- The translation impact of the stronger New Zealand dollar in the month of June 2004 on the Group's Australian sales when translated from Australian dollars to New Zealand dollars for reporting purposes.

Although the operating revenue shortfall was disappointing, we are extremely pleased and encouraged by the improvement in the Group's EBITDA margin percentage. Compared to the prior financial year, the Group's EBITDA margin percentage improved from 10.4% to 14.3%, and compared to the forecast in the Initial Public Offer prospectus, from 13.8% to 14.3%. This improvement reflects the successful change in product mix to the upper end of the value spectrum that has yielded improved margins.

EBITDA before for one-off items, increased to \$46.2 million, compared with \$31.2 million in the prior financial year. The increase of \$15 million represents an improvement of 48.1% and is attributed to the following factors:

- Improved margins associated with the successful change in product mix to the upper end of the value spectrum;
- Ongoing cost savings associated with increased yarn production in New Zealand for use in Australian manufacturing; and
- Benefits of the 2003 financial year's capital expenditure programme, which increased wool yarn capacity, lowered wool yarn costs and enabled new products to be manufactured by the tufting technology acquired in that programme.

During the year the Company restructured its woven carpet operations in Christchurch in response to a decrease in the demand for woven carpet. The decrease in demand is in part due to advances in tufting technology and in part to a loss of export opportunities due to the strength of the New Zealand dollar relative to the currencies of some of the Company's export markets, particularly the USA. In the year ended June 2004, the one-off cost of the restructuring was \$2.8 million, in line with forecast. Feltex estimates that the resulting cost savings of a reconfigured woven carpet operation will be approximately \$3 million per annum.

The Company closed its rubber underlay manufacturing plant in May 2004, incurring a one-off closure cost of \$1.25 million, slightly below forecast. Discontinuing the rubber underlay business will not have a material impact on the future earnings of Feltex.

CHAIRMAN'S AND CHIEF EXECUTIVE OFFICER'S REVIEW (Continued)

The comparison of the actual operating revenue and EBITDA to the forecast included in the Initial Public Offer prospectus is detailed below:

	FY 2004	
	Actual \$000	Forecast \$000
Operating Revenue	327,755	335,498
EBITDA – Before one-off items (Earnings before interest, taxation, depreciation, amortisation, write-offs, premium on early redemption of secured bonds and one-off items)	46,174	45,791
One-off items		
Christchurch woven plant redundancies	(2,773)	(2,800)
Rubber underlay closure costs	(1,250)	(1,350)
EBITDA - After one-off items (Earnings before interest, taxation, depreciation, amortisation, write-offs and premium on early redemption of secured bonds)	42,151	41,641
EBITA (Earnings before interest, taxation, amortisation, write-offs, premium on early redemption of secured bonds and one-off items)	38,866	37,715
NPAT (Before amortisation, write-offs, premium on early redemption of secured bonds and one-off items)	27,201	26,457

It is pleasing to report that the financial forecasts for the year ended June 2004 made in the Initial Public Offer prospectus, apart from sales, were achieved or exceeded.

A complete comparison with the Initial Public Offer prospective financial information is detailed on pages 44 to 48.

Financial Position

Through the Company's Initial Public Offer in June 2004, \$50 million of new capital was raised to assist with the redemption of the Bonds issued by Feltex in May 2003. The additional capital provided Feltex with an improved capital structure. The gearing ratio as at June 2004 was 49%, broadly in line with our preferred long term capital structure.

CHAIRMAN'S AND CHIEF EXECUTIVE OFFICER'S REVIEW (Continued)

Capital Expenditure

Capital expenditure for the year ended June 2004 was \$10.6 million. The most significant item was the purchase of the Foxton manufacturing site, for \$4.8 million, at which the Company's New Zealand tufted carpet operations are based. The opportunity to purchase the property occurred after the Initial Public Offer and provides the Company with full control over one of its key manufacturing sites and the flexibility for future development and expansion on the site. The Group has leased the property since the 1980's. The purchase of the property will have a positive impact on future earnings, with depreciation and financing costs being more than offset by the saving of the property rental.

Subsequent to year end, the Board approved the acquisition of new tufting equipment, for a total of \$9.1 million, to be installed and commissioned in the latter half of financial year 2005. These tufters incorporate the latest developments in tufting technology and will enable Feltex to provide further product differentiation to the market and service the forecast growth in the commercial market in financial year 2006 and beyond. As the major portion of this expenditure and the commissioning of the new tufters will occur in the second half of financial year 2005, the earnings contribution from this capital expenditure will not be realised fully until financial year 2006. The Board and Management have high expectations for the improved financial performance that will accrue to Feltex from this investment. As a result of these approvals, the projected capital expenditure for financial year 2005 will exceed the amount disclosed in the Initial Public Offer prospectus by approximately \$8 million.

Dividends

The Directors of Feltex have authorised a final dividend of 6 cents per ordinary share for the year ended June 2004, in line with the forecast in the Initial Public Offer prospectus.

Due to the Company's Initial Public Offer of shares and the resultant change of ownership of the Company on 2 June 2004, the Company was unable to carry forward imputation credits as it did not satisfy the shareholder continuity provisions of the Income Tax Act. As a result the final dividend for the year ended June 2004 will have no imputation credits attached.

The share register will close at 5 p.m. on Friday, 1 October 2004 for the purpose of determining entitlement to the final dividend and will re-open at 9 a.m. on Monday, 4 October 2004. The final dividend will be paid on Friday, 8 October 2004.

As noted in the Initial Public Offer prospectus, the Board is considering the introduction of a Dividend Reinvestment Plan for Shareholders and has sought external advice in relation to the proposed plan. As the final dividend for the year ended June 2004 will have no imputation credits attached, the Board's view is that a Dividend Reinvestment Plan at this stage would have only limited appeal to Shareholders. An outline of the proposed Dividend Reinvestment Plan to be introduced from the interim dividend for the year ending June 2005 will be mailed to Shareholders with dividend statements on 8 October 2004.

CHAIRMAN'S AND CHIEF EXECUTIVE OFFICER'S REVIEW (Continued)

Health and Safety

The number of lost time injuries has further reduced by 19% during the year, as a result of Feltex's comprehensive Occupational Health & Safety programme. This includes more attention to prevention, rehabilitation and early return to work. We continue to strive for zero lost time injuries and involve employees in working towards this objective. We have recognised the need for improved hazard management procedures and have commenced the implementation of an employee involvement system to identify, report and reduce hazards.

A Safety Recognition System has been introduced to recognise safety milestones, and "gold awards", twelve months without a lost time injury, have been achieved by several plants.

The New Zealand operations have maintained secondary level ACC accreditation, which confirms the consolidation of good safety practices across all plants.

Employee Relations and Development

The total number of employees reduced from 1,803 to 1,653, as a result of restructuring the woven carpet operations and the closure of the rubber underlay manufacturing plant. The employee split is 55% in New Zealand and 45% in Australia.

The Australian operations have successfully concluded negotiations for a new Employment Agreement that covers the majority of weekly paid employees for a three year period commencing September 2004.

Feltex's commitment to training and development continues. During the year the Feltex Leadership Development programme was launched and will be conducted annually. The programme consists of several modules incorporating contemporary leadership practices.

The Cadetship programme in New Zealand has been expanded with a second intake of Cadets at the start of 2004. Cadets complete a four-year programme for a National Diploma of Textiles, to prepare them for technical manufacturing and supervisory roles.

Outlook

The overall carpet market is expected to be stable in the period to June 2005 with continued growth in the commercial market offsetting an expected slow down in the residential market, primarily in the new housing and apartment segments. In the residential carpet market, Feltex's focus is on the renovation and refurbishment segments of the market, which tends to be affected to a lesser extent by residential building cycles.

Feltex's principal sales market is Australia and thus any appreciation in the New Zealand dollar against the Australian dollar, adversely affects the Group's profitability. In order to mitigate this risk, it is Feltex's policy, where possible, to hedge such foreign currency exposures. Provided the exchange rate does not remain at current levels for the full financial year or strengthen further, we expect the adverse effect of the current strength of the New Zealand dollar against the Australian dollar to be offset by improvements in profitability flowing from other initiatives Feltex has implemented. On this basis we expect to achieve the projected earnings for 2005 as outlined in the Initial Public Offer prospectus; EBITDA of \$51.7 million and Net Profit After Tax of \$23.9 million.

CHAIRMAN'S AND CHIEF EXECUTIVE OFFICER'S REVIEW (Continued)

As a result of the capital expenditure approvals for the new tufters, the Group's projected capital expenditure for financial year 2005 will exceed the amount disclosed in the Initial Public Offer prospectus by approximately \$8 million. Due to the acquisition of the Foxton manufacturing site and the capital expenditure approvals for the new tufters, the Group's debt levels at the end of financial year 2005 will exceed the projected debt levels by approximately \$10 million. The acquisition of the Foxton manufacturing site will have a positive impact on earnings in financial year 2005. The Board and Management expect a strong contribution to the earnings of Feltex in financial year 2006 from the additional 2005 capital expenditure programme.

The past four years have been challenging for Feltex. While the Group has been affected by outside events, it has also undergone significant internal restructuring. To ensure continued improvement, further refinement of operations will be undertaken as deemed necessary.

As reflected in the results, Feltex's performance has improved significantly during recent years. It is our intention that this trend continues on all fronts. A long term strategic planning process has commenced and the Board and Management will use this to put in place strategies which ensure the creation of greater value for our Shareholders. It is only through constantly achieving superior value and returns for Shareholders that the potential market capitalisation of the Company will be achieved. The Board and Management of Feltex are committed to seeing this occur.

A handwritten signature in black ink, appearing to read "Tim Saunders".

Tim Saunders
Chairman

A handwritten signature in black ink, appearing to read "Sam Magill".

Sam Magill
Chief Executive Officer

FELTEX CARPETS LIMITED DIRECTORY

REGISTERED OFFICE

Feltex Centre
Level 7
145 Symonds Street
Auckland
New Zealand
Telephone: (09) 379 1919
Facsimile: (09) 379 1911
www.feltex.com

DIRECTORS

- Timothy Ernest Corbett Saunders – Chairman
- Samuel John Magill – Chief Executive Officer
- John Michael Feeney
- Craig Edgeworth Horrocks
- Peter David Hunter
- Peter Thomas
- Joan Withers (Appointed April 2004)

AUDITOR

- Ernst & Young, Auckland, New Zealand

BANKERS

- ANZ Banking Group (New Zealand) Limited
- Australia and New Zealand Banking Group Limited

SOLICITORS

- Bell Gully, Auckland, New Zealand
- Herbert Geer & Rundle, Melbourne, Australia

FELTEX CARPETS LIMITED BOARD OF DIRECTORS

Tim Saunders B.Com, MBA Non-Executive Chairman

Mr Saunders was a founding member of, and is now a Consultant to, Northington Partners Limited, a specialist investment bank.

Mr Saunders has broad advisory experience in both the public and private sectors. He was an adviser to the New Zealand Treasury from 1987 to 1996, primarily on corporatisation and privatisation matters. He has also acted as a consultant to a number of international and local corporations and government bodies. He is a Fellow of the New Zealand Institute of Directors.

Mr Saunders currently holds several Directorships in New Zealand public and private companies and entities including Calan Healthcare Properties Limited, Capital Properties New Zealand Limited, Contact Energy Limited, New Zealand Exchange Limited and Pyne Gould Corporation Limited and he is Chairman of Solid Energy New Zealand Limited. He is also a member of the Australasian Advisory Board of LEK Consultants.

Mr Saunders holds a Bachelor of Commerce (Economics) from the University of Cape Town and a Master of Business Administration from Columbia University, New York. He has been a Director of Feltex since March 1997 and is the Chairman of the Remuneration Committee and a member of the Finance Committee. He has been Chairman of the Feltex Board of Directors since 2000.

Sam Magill BApplied Science, (CTT) Chief Executive

Mr Magill is the Chief Executive Officer of Feltex. He was appointed to that position in November 2000 and was previously Managing Director of Shaw Industries Australia (now Feltex Australia Pty Limited). He has 36 years experience in the carpet industry.

Mr Magill has held the position of Managing Director of Capital Carpet Industries Pty Limited (Redbook and Minster Carpets), General Manager of Invicta Carpets and General Manager/Alternate Director of Carpets International Malaysia Sdn Bhd, and Alternate Director of Tai Ping Carpet Singapore Limited.

Mr Magill has held numerous management positions in manufacturing, marketing, business development, corporate strategy and in retail.

He has been at the forefront of the major rationalisation strategies within the Australian carpet industry, being involved in four carpet industry mergers/integrations. He has both local and overseas experience in the carpet industry.

He holds a Bachelor of Applied Science from Caulfield Institute of Technology (now Monash University, Melbourne). Mr Magill is a Fellow of the Australian Institute of Management; a Fellow of the Australian Institute of Directors and is a Director of the Carpet Institute of Australia. Mr Magill has been an Executive Director of Feltex since December 2000 and is a member of the Occupational Health and Safety Board Committee.

BOARD OF DIRECTORS (Continued)

Michael Feeney B.Com (Marketing) Non-Executive Director

Mr Feeney is an Executive Partner of Collins Partners Corporate Advisory, a Melbourne-based corporate advisory firm.

Mr Feeney has held senior positions in a number of industries including the positions of Finance and Strategy Director for Philip Morris Limited, the Executive Director Strategy and Corporate Affairs for Elders IXL Limited and the Executive Director Corporate Strategy of Elders Resources NZFP Limited.

Mr Feeney is a Director of Sims Group Limited, which is listed on the Australian Stock Exchange, and Carpet Call (Holdings) Pty Limited.

Mr Feeney received his Bachelor of Commerce from the University of New South Wales. He has been a Director of Feltex since June 2000 and is the Chairman of the Occupational Health and Safety Board Committee and a member of the Remuneration Committee.

Craig Horrocks LLB, MBA Non-Executive Director

Mr Horrocks is a specialist adviser on international technology projects through the Auckland based consulting firm Clendon Feeney MSC Limited which is the consulting arm of the law firm, Clendon Feeney. He remains a consultant to Clendon Feeney and continues to hold a New Zealand Law Society practising certificate. He is on the Board of a number of private companies including Maximum Availability Limited, Techcertain Group Limited and Zorb Limited.

Mr Horrocks has previously worked overseas as a senior executive for multinational companies, including TNT Limited.

Mr Horrocks received his Bachelor of Laws from the University of Auckland, and his Master of Business Administration from the Australian Graduate School of Management. He has completed courses in logistics and systems analysis. He has been a Director of Feltex since January 1997 and is the Chairman of the Audit and Risk Management Committee.

David Hunter Non-Executive Director

Mr Hunter retired as Chief Executive of Carter Holt Harvey Pulp and Paper Group in 1995 having previously held General Management roles in the Manufacturing, Building Products and Packaging divisions.

He is a Director of several private companies and a Trustee of both the Eden Park and Dilworth Trust Boards. Mr Hunter qualified as a Member of the New Zealand Society of Accountants in 1962. He has been a Director of Feltex since June 1999 and is a member of the Audit and Risk Management Committee and the Occupational Health and Safety Board Committee.

BOARD OF DIRECTORS (Continued)

Peter Thomas B.Com

Non-Executive Director

Mr Thomas is a Director in a consulting firm, Orion Associates Pty Limited. Mr Thomas was an executive with Credit Suisse First Boston from 1981 to 2001. During this time, he served as Managing Director of CSFB's Australian operations (1983 to 1994) and Chairman of its New Zealand operations (1990 to 1994).

Mr Thomas is a Director of Bayard Capital Partners Pty Limited (Australia), Limestone Creek Holdings Limited (New Zealand), Madowla Park Holdings Limited (Australia), Malee Sampran Public Company Limited (Thailand), Titan Resources NL (Australia), and various subsidiaries of these holding companies. He is also a Consultant to Pan Asian Advisors Limited (Jersey, Channel Islands, United Kingdom).

Mr Thomas is a resident of Melbourne, and has a Bachelor of Commerce degree from the University of Auckland.

He has been a Director of Feltex since September 1996, and is a member of the Finance Committee and the Remuneration Committee.

Joan Withers MBA

Non-Executive Director

Mrs Withers retired as Chief Executive of the Radio Network of New Zealand Limited in 1997 after previously holding a number of senior management positions in the New Zealand radio industry, including Chief of Operations of Radio New Zealand Commercial and General Manager of New Zealand Radio Sales.

At present, Mrs Withers is a Director of Auckland International Airport Limited, The Warehouse Group Limited, Meridian Energy Limited and Tourism Holdings Limited. She has also recently been appointed to the advisory council for Fairfax New Zealand Limited. In addition, Mrs Withers is Chair of the Clinical Research and Effective Practice Foundation, an organisation which manages and facilitates research at Middlemore Hospital.

Mrs Withers is a Trustee of both the Royal New Zealand Ballet and the Counties Manukau Pacific Trust. She is also involved in an advisory capacity with the Tindall Foundation and sits on the advisory board of the University of Auckland MBA Programme.

Mrs Withers received her Master of Business Administration from the University of Auckland in 1990. She has only recently joined the Board of Feltex, and is a member of the Occupational Health and Safety Board Committee and the Audit and Risk Management Committee.

FELTEX CARPETS LIMITED

SENIOR MANAGEMENT

The Feltex senior management team has significant experience in the Australasian carpet industry. The Chief Executive Officer has been in the carpet industry for 36 years and the Chief Operating Officer, General Manager Operations New Zealand and General Manager Manufacturing Australia have an average of over 30 years experience in the carpet industry.

Sam Magill

Chief Executive Officer

See details under the "Directors" section on page 10.

John Kotic

Chief Operating Officer

John joined Feltex in 1980 as Operations Accountant. Since joining Feltex, John has acted in various roles including as General Manager Finance from 1989 to 2003. In July 2003, John was appointed Chief Operating Officer, taking on responsibility for all of Feltex's Manufacturing operations. John has over 30 years experience in the flooring industry and is a graduate of Victoria University, Melbourne (formerly Footscray Institute of Technology) with a Diploma of Business Studies (Accounting) and is a member of CPA Australia.

Des Tolan

Chief Financial Officer

Des joined Feltex in August 2000 and was promoted to his current role in July 2003. Before assuming his current role, Des served as Feltex's Group Financial Controller and Financial Controller New Zealand Manufacturing. Des graduated with a Bachelor of Commerce degree from the University of Natal (South Africa) where he also completed a Post Graduate Diploma in Accounting. Des is a Chartered Accountant in South Africa and New Zealand. Des is a member of the Institute of Chartered Accountants of New Zealand.

Ian Barbour

General Manager Operations New Zealand

Ian joined a subsidiary of Feltex in 1978 holding various senior management positions and assumed his current role in 1997, managing all of Feltex's New Zealand manufacturing operations. Ian is currently the Chairperson of the industry development organisation, Textiles NZ and is a board member of the regional economic development agency for Horowhenua and Kapiti.

Peter de Fontenay

General Manager Business Systems

Peter joined Feltex in 2003 in his current position. Since joining Feltex, Peter has overseen the development of the Feltex B2B (business to business) capability and streamlined Feltex's information reporting systems. Peter is a Member of the Australian Computer Society and a Fellow of the Australian Institute of Company Directors.

SENIOR MANAGEMENT (Continued)

Neville Giles

General Manager Manufacturing Australia

Neville joined Shaw Industries Australia in 1996 as a Plant Manager. Following the acquisition of Shaw Industries Australia by Feltex in 2000, Neville was promoted to his current position, and assumed responsibility for all Australian manufacturing sites. Neville has 33 years experience in the textile industry. Neville holds a Certificate in Textile Technology, Management and Engineering, and has completed further studies in Textile Mechanics and Manufacturing Accounting.

Zoran Jovanovski – General Manager Residential Marketing

Zoran joined Shaw Industries Australia in August 1997. Following the acquisition of Shaw Industries Australia by Feltex in 2000, Zoran was promoted to the newly created role of General Manager Residential Marketing and now oversees the development and implementation of all consumer and retailer-related brand activity, along with ultimate responsibility for residential product design and development. Zoran holds a Bachelor of Business from the Swinburne Institute of Technology (Hawthorn Campus).

Rod Lyons

General Manager Residential Sales

Rod joined Pacific Carpets International in 1978 as Victorian Sales Manager of the Redbook division (now part of Feltex). Throughout his tenure, Rod has been instrumental in introducing trends in product design and yarn construction into the regional market, as well as developing Feltex's sales model for incentives, commissions and sales force development. Rod has 33 years of sales experience.

Wendy McCarrison-Wilson

General Manager Commercial Sales and Marketing

Wendy joined Feltex in 1988 and has 16 years experience in the carpet industry, all of them with Feltex. She represents Feltex on the Executive Committee of the National Flooring Association of New Zealand. Wendy has had various sales and marketing roles within Feltex and now manages the Commercial Sales and Marketing teams in both New Zealand and Australia and an international team responsible for all export and aircraft sales and marketing.

John Shackleton

General Manager Distribution & Customer Services

John joined Minster (now part of Feltex) in 1989 as National Commercial Sales Manager, and was promoted to his current position in April 2002. John has experience in all areas of yarn and carpet manufacture, technical support and raw material supply as well as warehousing and distribution. John holds a Graduate Diploma in Carpet Technology from Kidderminster College and trade diplomas from City & Guilds.

Charles van Heerden

General Manager Human Resources

Charles joined Feltex in 1999 as Human Resources Manager for Feltex New Zealand and was appointed to his current position in July 2000. Charles has more than twenty years of international experience in senior human resource management roles in Australia, New Zealand and South Africa. Charles graduated from the University of Pretoria with a BA in Psychology, followed by an Honours degree in Industrial Relations from the Rand Afrikaans University. Charles is a member of the Human Resources Institute of New Zealand.

FELTEX CARPETS LIMITED CORPORATE GOVERNANCE STATEMENT

Role of the Board

The Board has ultimate responsibility for the strategic direction of Feltex and oversight of the management of Feltex for the benefit of Shareholders. Specifically, the responsibilities of the Board include:

- working with management to establish the strategic direction of Feltex;
- monitoring management and financial performance;
- monitoring compliance and risk management;
- establishing and monitoring the health and safety policies of Feltex;
- establishing and ensuring implementation of succession plans for senior management; and
- ensuring effective disclosure policies and procedures.

In discharging their duties, Directors have direct access to and may rely upon Feltex's senior management and external advisers and auditors. Directors have the right, with the approval of the Chairman or by resolution of the Board, to seek independent legal or financial advice at the expense of Feltex for the purpose of the proper performance of their duties.

The Board comprises seven Directors: a non-executive Chairman, one executive Director, and five non-executive Directors. Board members have an appropriate range of proficiencies, experience and skills to ensure that all governance responsibilities are fulfilled and to achieve the best possible management of resources.

All of Feltex's non-executive Directors (including the Chairman) are considered by the Board to be independent Directors for the purposes of the Listing Rules of the New Zealand Exchange Limited (NZX).

The Board formally meets at least five times during the financial year and has additional sessions to consider the strategic direction of Feltex. At least one Board meeting is a multi-day meeting to consider revisions to a rolling three-year forward plan for Feltex. Video and/or phone conferences are also used as required. Due to the Initial Public Offer (IPO), additional meetings were held during financial year 2004.

The Board has adopted formal Board and committee charters, a code of ethics and a process for measuring Board performance, which are consistent with the NZX's Corporate Governance Best Practice Code.

Full Board Meeting Attendances (Excluding Board committee meetings)

	Board & Strategy Meetings
Number of meetings	18
Directors	
Tim Saunders	18
Sam Magill	18
Michael Feeney	18
Craig Horrocks	18
David Hunter	16
Peter Thomas	14
Joan Withers – Appointed April 2004	6

CORPORATE GOVERNANCE STATEMENT - Continued

Board Committees

The Board has four formally constituted committees that comprise Directors and, in some cases, representatives from management. Committees established by the Board review and analyse policies and strategies, usually developed by management, which are within their terms of reference. They examine proposals and, where appropriate, make recommendations to the full Board. Committees do not take action or make decisions on behalf of the Board unless specifically mandated by prior Board authority to do so.

The Committees are as follows:

Occupational Health and Safety Committee

The Occupational Health and Safety Committee is responsible for establishing policies for management on health and safety matters that might affect Feltex employees, suppliers, customers and visitors, or that might adversely affect the general public. It is also responsible for ensuring compliance with relevant legislation and monitoring performance against agreed occupational health and safety goals and indicators. The committee met 3 times during the year.

Finance Committee

The Finance Committee is responsible for reviewing and overseeing the treasury and financing policies of Feltex. The Committee meets at least twice a year, and on an ad hoc basis as required. Such ad hoc meetings have been frequent in recent years owing to the restructuring of Feltex's finances following the acquisition of Shaw Industries Australia. The Committee met regularly during the year.

Remuneration Committee

The Remuneration Committee is responsible for overseeing management succession planning, establishing employee incentive schemes, reviewing and approving the compensation arrangements for the Chief Executive Officer and senior management, and recommending to the full Board the compensation of Directors.

Audit and Risk Management Committee

The Audit and Risk Management Committee is responsible for overseeing the risk management, insurance, accounting and audit activities of Feltex, including reviewing the adequacy and effectiveness of internal controls, meeting with and reviewing the performance of external auditors, reviewing the consolidated financial statements, and making recommendations on financial and accounting policies. The committee met 4 times during the year.

Additional information regarding Directors' interests and remuneration is included at pages 50 to 52.

Auditor's Report

To the Shareholders of Feltex Carpets Limited.

We have audited the financial statements on pages 19 to 48. The financial statements provide information about the past financial performance of the company and group and their financial position as at 30 June 2004. This information is stated in accordance with the accounting policies set out on pages 24 to 26.

Directors' Responsibilities

The directors are responsible for the preparation of financial statements which comply with generally accepted accounting practice in New Zealand and give a true and fair view of the financial position of the company and group as at 30 June 2004 and of their financial performance and cash flows for the year ended on that date.

Auditor's Responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the directors and report our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the directors in the preparation of the financial statements; and
- whether the accounting policies are appropriate to the circumstances of the company and group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditor we have no relationship with, or interest in, the company or any of its subsidiaries.

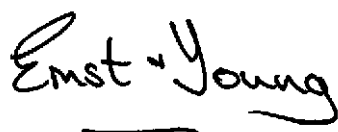
Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records; and
- the financial statements on pages 19 to 48:
 - comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of the financial position of the company and group as at 30 June 2004 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 24 August 2004 and our unqualified opinion is expressed as at that date.



Auckland

FELTEX CARPETS LIMITED
DIRECTORS' REPORT
For the year ended 30 June 2004

The Directors have approved the Financial Statements of Feltex Carpets Limited for the year ended 30 June 2004, set out on pages 19 to 54 of this report.

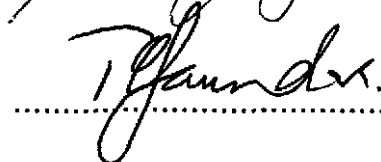
For and on behalf of the Board:

Director

A handwritten signature in dark ink, appearing to be "Stammy M. N. N."

Date .. 24 August 2004

Director

A handwritten signature in dark ink, appearing to be "T. J. J. J."

Date .. 24 August 2004.

FELTEX CARPETS LIMITED



Statement of Financial Performance For the year ended 30 June 2004

	Note	Group		Company	
		June 2004	June 2003	June 2004	June 2003
		\$000	\$000	\$000	\$000
Total operating revenue	2	327,755	314,352	155,867	146,282
Earnings before interest and income tax		32,869	21,380	22,323	25,088
Financing expense	3	(23,487)	(15,695)	(22,811)	(14,596)
Operating surplus / (deficit) before income tax	3	9,382	5,685	(488)	10,492
Income tax benefit / (expense)	4	492	35	(110)	14
Net surplus / (deficit) after income tax		9,874	5,720	(598)	10,506
Equity accounted earnings of associate company	13	1,309	1,121	-	-
Net surplus / (deficit) attributable to ordinary Shareholders	19	11,183	6,841	(598)	10,506



**Statement of Movements in Equity
For the year ended 30 June 2004**

	Note	Group		Company	
		June 2004	June 2003	June 2004	June 2003
		\$000	\$000	\$000	\$000
Equity at beginning of the year		16,652	9,946	39,822	29,316
Net surplus / (deficit) attributable to: ordinary Shareholders	19	11,183	6,841	(598)	10,506
Shares issued	16	50,000	-	50,000	-
Share issue expenses	16	(1,750)	-	(1,750)	-
Foreign exchange gain / (loss) on consolidation	15	(1,970)	(135)	-	-
Revaluation of land and buildings	15	15,295	-	8,539	-
Equity at end of the year		89,410	16,652	96,013	39,822



**Statement of Financial Position
As at 30 June 2004**

	Note	Group		Company	
		June 2004	June 2003	June 2004	June 2003
		\$000	\$000	\$000	\$000
NET ASSETS					
Current Assets					
Cash		1,201	3,449	717	2,269
Trade receivables	5	58,444	52,717	10,923	11,155
Other receivables and prepayments	6	4,208	3,864	13,918	12,190
Inventories	7	70,242	79,415	23,953	30,325
		134,095	139,445	49,511	55,939
Less:					
Current Liabilities					
Bank overdraft		130	-	-	-
Accounts payable	8	65,707	67,289	42,437	30,686
Current portion of borrowings	10	742	2,457	-	-
Provisions	9	15,047	16,713	4,652	5,896
Provision for income tax	4	1,407	-	3	-
		83,033	86,459	47,092	36,582
Working Capital		51,062	52,986	2,419	19,357
Plus:					
Non-Current Assets					
Property, plant and equipment	11	80,116	63,016	33,430	14,152
Term receivables and other non-current assets	12	-	4,180	76,867	141,316
Investments	13	5,342	4,247	66,148	9,008
Goodwill	14	30,169	33,453	-	-
Future income tax benefit	4	9,862	8,224	1,761	1,873
		125,489	113,120	178,206	166,349
Less:					
Non Current Liabilities					
Borrowings	10	85,969	148,118	84,612	145,884
Provisions	9	1,172	1,336	-	-
		87,141	149,454	84,612	145,884
Total Net Assets		89,410	16,652	96,013	39,822
CAPITAL EMPLOYED					
Share capital	16	67,755	19,505	67,755	19,505
Reserves	15	14,474	1,149	8,539	-
Retained earnings attributable to ordinary Shareholders	19	7,181	(4,002)	19,719	20,317
Total Equity		89,410	16,652	96,013	39,822
Total Capital Employed		89,410	16,652	96,013	39,822

For and on behalf of the Board, which authorised the issue of these financial statements on 24 August 2004.

Director: 

Director: 

Statement of Cash Flows
For the year ended 30 June 2004

	Group		Company	
	June 2004	June 2003	June 2004	June 2003
	\$000	\$000	\$000	\$000
Cash Flows from Operating Activities				
Cash was provided from:				
Receipts from customers	322,983	311,814	144,070	135,351
Interest received	82	95	11,987	12,376
Income tax refunded	35	42	-	42
Grants and rebates	4,766	815	-	-
Dividend received from associate company	283	-	-	-
	328,149	312,766	156,057	147,769
Cash was disbursed to:				
Payments to suppliers and employees	(288,778)	(285,154)	(121,350)	(124,604)
Financing expense paid	(14,370)	(16,379)	(13,935)	(15,279)
Income tax paid	-	(267)	-	-
	(303,148)	(301,800)	(135,285)	(139,883)
Net cash inflow from operating activities	25,001	10,966	20,772	7,886
Cash Flows from Investing Activities				
Cash was provided from:				
Proceeds from the sale of fixed assets	300	2,866	292	8
	300	2,866	292	8
Cash was applied to:				
Purchase of fixed assets	(10,608)	(10,731)	(8,153)	(3,387)
	(10,608)	(10,731)	(8,153)	(3,387)
Net cash outflow from investing activities	(10,308)	(7,865)	(7,861)	(3,379)
Cash Flows from Financing Activities				
Cash was provided from:				
Proceeds from share issue	50,000	-	50,000	-
Borrowings	5,000	4,691	5,000	-
Proceeds from secured bonds issue	-	60,000	-	60,000
	55,000	64,691	55,000	60,000
Cash was applied to:				
Repayment of secured bonds	(60,000)	-	(60,000)	-
Premium paid on early redemption of secured bonds (Early Redemption Amount)	(4,800)	-	(4,800)	-
Share issue expenses	(1,750)	-	(1,750)	-
Secured bonds issue expenses	(49)	(4,987)	(49)	(4,987)
Repayment of borrowings	(4,694)	(56,725)	(2,864)	(56,725)
Finance lease repayments	(762)	-	-	-
	(72,055)	(61,712)	(69,463)	(61,712)
Net cash inflow / (outflow) from financing activities	(17,055)	2,979	(14,463)	(1,712)
Net Increase / (decrease) in cash held	(2,362)	6,080	(1,552)	2,795
Effect of exchange rate changes on cash	(16)	(105)	-	-
Opening cash balance	3,449	(2,526)	2,269	(526)
Closing cash balance	1,071	3,449	717	2,269
Represented by:				
Cash at bank	1,201	3,449	717	2,269
Bank overdraft	(130)	-	-	-
	1,071	3,449	717	2,269

**Reconciliation of Cash Flows from Operating Activities
For the year ended 30 June 2004**

	Group		Company	
	June 2004	June 2003	June 2004	June 2003
	\$000	\$000	\$000	\$000
Net surplus / (deficit) after Income Tax	9,874	5,720	(598)	10,506
Non cash items				
Amortisation of secured bond issue expenses	4,882	154	4,882	154
Depreciation	7,308	7,843	2,990	3,601
Amortisation of goodwill	1,974	1,949	-	-
Decrease / (increase) in future income tax benefit	(1,638)	76	112	106
Foreign currency translation adjustments - unrealised	(4)	543	(4)	543
	12,522	10,565	7,980	4,404
Movement in working capital				
Increase / (decrease) in accounts payable	(1,582)	7,978	5,925	(8,600)
Increase / (decrease) in provisions	(1,830)	1,797	(1,244)	2,111
Increase / (decrease) in taxation payable	1,407	(368)	3	(78)
(Increase) / decrease in other taxation receivable	-	32	-	-
(Increase) / decrease in trade receivables	(5,727)	(1,291)	232	1,453
(Increase) / decrease in other receivables & prepayments	(1,272)	(671)	(2,656)	6,546
(Increase) / decrease in inventories	9,173	(11,906)	6,372	(8,448)
Foreign currency translation effects of working capital movements	(2,347)	(860)	-	-
	(2,178)	(5,289)	8,632	(7,016)
Items classified as an investing activity included in net surplus / (deficit) after income tax				
Net profit on sale of fixed assets	(17)	(30)	(42)	(8)
	(17)	(30)	(42)	(8)
Items classified as a financing activity included in net surplus / (deficit) after income tax				
Premium paid on early redemption of secured bonds (Early Redemption Amount)	4,800	-	4,800	-
	4,800	-	4,800	-
Net cash inflow from operating activities	25,001	10,966	20,772	7,886

Notes to and forming part of the Financial StatementsFor the year ended 30 June 2004

1) Statement of Accounting Policies**Reporting Entity**

Feltex Carpets Limited ("the Company") is a company registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange. The Group consists of Feltex Carpets Limited and its subsidiaries.

The Company is an issuer for the purposes of the Financial Reporting Act 1993. The financial statements of the Company and Group have been prepared in accordance with the Companies Act 1993 and the Financial Reporting Act 1993.

Measurement Basis

The Company and the Group follow the accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on an historical cost basis. The reporting currency is New Zealand dollars.

Specific Accounting Policies

The following specific accounting policies, which materially affect the financial statements, have been applied:

a) Basis of Consolidation - Purchase Method

The consolidated financial statements include the parent company and its subsidiaries accounted for using the purchase method. All inter-company transactions are eliminated on consolidation. In the parent company's financial statements, investments in subsidiaries are recognised at their cost less any provision for diminution in value.

b) Associate Companies

The associate companies are companies in which the Feltex Group holds substantial shareholdings and in whose commercial and financial policy decisions it participates. Associate companies have been reflected in the consolidated financial statements on an equity accounted basis which shows the Feltex Group's share of retained surpluses in the consolidated statement of financial performance, and its share of post acquisition increases or decreases in net assets in the consolidated statement of financial position.

c) Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer possible. Bad debts are written off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due.

d) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first-in-first-out basis.

The cost of work in progress and finished goods includes the direct cost of material and labour, and a proportion of manufacturing overhead, based on the normal capacity of the facilities, expended in putting the inventories in their present location and condition.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2004

e) Property, Plant and Equipment

The Group has eight classes of property, plant and equipment:

- Freehold land
- Freehold buildings and leasehold improvements
- Plant and machinery – owned
- Plant and machinery – under finance lease
- Furniture and fittings
- Office equipment and information technology
- Motor vehicles – owned
- Motor vehicles – under finance lease

Property, plant and equipment are initially recorded at cost and, except for land, depreciated. Depreciation is provided on a straight line basis on all tangible property, plant and equipment other than freehold land and capital work in progress, at depreciation rates calculated to allocate the assets' cost less estimated residual value, over their estimated useful lives. Leased assets are depreciated over the shorter of the unexpired period of the lease and the estimated useful life of the assets.

Major depreciation periods are:

- | | |
|---|-----------------|
| - Freehold buildings | - 10 - 50 years |
| - Leasehold improvements | - Term of lease |
| - Plant and machinery – owned | - 6 - 14 years |
| - Plant and machinery – under finance lease | - 6 - 14 years |
| - Furniture and fittings | - 3 - 7 years |
| - Office equipment | - 3 - 7 years |
| - Information technology | - 3 - 5 years |
| - Motor vehicles – owned | - 5 years |
| - Motor vehicles – under finance lease | - 5 years |

When a fixed asset is disposed of, any gain or loss is recognised in the statement of financial performance and is calculated as the difference between the sale price and the carrying value of the fixed asset.

If the recoverable amount of a fixed asset is less than its carrying amount, the item is written down to its recoverable amount. The write-down of a fixed asset is recognised as an expense in the statement of financial performance.

Revaluations

Land and Buildings are stated at valuation as determined every three years by an independent registered valuer. The basis of valuation is "Fair-Value" for existing use. Any increase in value of a class of land and buildings is recognised directly in equity unless it offsets a previous decrease in value recognised in the statement of financial performance, in which case it is recognised in the statement of financial performance. A decrease in value relating to a class of land and buildings is recognised in the statement of financial performance where it exceeds the increase previously recognised in equity.

f) Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of the net tangible and identifiable intangible assets, acquired at the time of acquisition of a business or an equity interest in a subsidiary. Goodwill is amortised by the straight-line method over the period during which benefits are expected to be received. This is a maximum of 20 years.

g) Leases

The Group leases certain property, plant and machinery and motor vehicles.

Finance leases, which effectively transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the present value of the minimum lease payments. The leased assets and corresponding liabilities are disclosed and the leased assets are depreciated over the period during which the Group is expected to benefit from their use.

Notes to and forming part of the Financial StatementsFor the year ended 30 June 2004

Operating lease payments, where the lessors effectively retain all the risks and benefits of ownership of the leased items, are recognised in the determination of the operating surplus in equal instalments over the lease term.

h) Income Tax

The income tax expense charged to the statement of financial performance includes both the current year's provision and the income tax effects of timing differences calculated using the liability method.

Tax effect accounting is applied on a comprehensive basis to all timing differences. A debit balance in the deferred tax account, arising from timing differences or income tax benefits from income tax losses, is recognised only if there is virtual certainty of realisation.

i) Foreign Currency Transactions

Transactions in foreign currencies are converted at the New Zealand rate of exchange ruling at the date of the transaction. Short-term transactions covered by forward exchange contracts are measured and reported at the forward rates specified in those contracts.

At balance date foreign monetary assets and liabilities, including those of integrated foreign operations, are translated at the closing rate, and exchange variations arising from these translations are included in the statement of financial performance.

j) Translation of Financial Statements of Foreign Operations

The financial statements of integrated foreign operations are translated in the same way as if the underlying transactions had been entered into by the reporting entity itself.

The assets and liabilities of independent foreign operations are translated at the closing rate. Revenue and expense items are translated at the spot rate at the transaction date or a rate approximating that rate. Foreign currency exchange differences are recognised in the foreign currency translation reserve.

k) Cash Flows

For the purpose of the statement of cash flows, cash includes cash on hand, deposits held at call with banks and investments in money market instruments, net of bank overdrafts, which are used as part of the day-to-day cash management.

l) Employee entitlements

A liability for annual leave and long service leave is accrued and recognised in the statement of financial position. The liability is equal to the present value of the estimated future cash outflows as a result of employee services provided up to balance date.

m) Changes in Accounting Policies

There have been no changes in accounting policies. All policies have been applied on bases consistent with those used in the prior year, being the year ended 30 June 2003.

To achieve consistency within the Group, the disclosure of the sales amount has been amended to exclude claims and freight. Previously the Australian sales amount was net of claims and freight. These costs are now shown as part of cost of goods sold.

n) Changes in Comparatives

Where applicable, certain comparatives have been restated to comply with the accounting presentation adopted for the current year.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2004

2) Total Operating Revenue

	Group		Company	
	June 2004	June 2003	June 2004	June 2003
	\$000	\$000	\$000	\$000
Sales	322,607	313,412	143,838	133,898
Interest revenue	82	95	11,987	12,376
Profit on sale of property, plant and equipment	17	30	42	8
Grants and rebates	4,766	815	-	-
Share of dividend from associate company	283	-	-	-
Total operating revenue	327,755	314,352	155,867	146,282

3) Operating Surplus / (Deficit) before Income Tax

Operating surplus / (deficit) before income tax is arrived at after taking account of the following:

	Group		Company	
	June 2004	June 2003	June 2004	June 2003
	\$000	\$000	\$000	\$000
Expenses				
Amortisation of goodwill	1,974	1,949	-	-
Auditor's fees - audit	290	252	107	73
Auditor's fees - tax & assurance services	266	302	85	164
Bad and doubtful debts expense	282	209	(45)	185
Bad debts recovered	(191)	-	-	-
Directors' fees	387	341	360	314
Donations	82	13	82	13
Rental and operating lease expenses	3,950	3,891	2,241	2,352
Depreciation				
Depreciation - buildings	1,576	1,228	175	32
Depreciation - plant & machinery	4,532	4,595	1,744	1,553
Depreciation - leased assets	126	-	-	-
Depreciation - furniture & fittings	69	84	69	84
Depreciation - office equipment	1,002	1,933	1,002	1,932
Depreciation - motor vehicles	3	3	-	-
Total depreciation	7,308	7,843	2,990	3,601
Financing expense				
Interest on borrowings	13,387	15,541	12,790	14,442
Finance charges on finance leases	79	-	-	-
Write-off of bank facility fee	339	-	339	-
Write-off of secured bond issue expenses	4,882	154	4,882	154
Early Redemption Amount ^(a)	4,800	-	4,800	-
Total Financing expense	23,487	15,695	22,811	14,596

(a) Premium paid on early redemption of secured bonds.



Notes to and forming part of the Financial Statements

For the year ended 30 June 2004

4) Taxation

	Group		Company	
	June 2004	June 2003	June 2004	June 2003
	\$000	\$000	\$000	\$000
Operating surplus / (deficit) before income tax	9,382	5,685	(488)	10,492
Taxation at 33 cents per dollar	3,097	1,875	(161)	3,462
Adjusted for:				
Permanent differences	1,646	(3,304)	68	(3,785)
Permanent differences – Australian tax consolidation ^(a)	(3,674)	-	-	-
Prior year adjustments	3	1,235	3	-
Recognition of previously unrecognised tax losses	(1,590)	(817)	-	-
Tax benefits not recognised	631	609	200	309
Adjustment for effect of foreign currency translations	(272)	234	-	-
Adjustment for rates other than 33 cents	(333)	133	-	-
Income tax (benefit) / expense	(492)	(35)	110	(14)
Current taxation				
New Zealand	-	(39)	-	(39)
Non New Zealand	1,372	(6)	3	(81)
Total current taxation	1,372	(45)	3	(120)
Deferred taxation				
New Zealand	-	-	-	-
Non New Zealand	(1,864)	10	107	106
Total deferred taxation	(1,864)	10	107	106
Income tax (benefit) / expense	(492)	(35)	110	(14)
Deferred taxation – future income tax benefit				
Opening balance	8,224	8,300	1,873	1,979
Movement for the year	1,864	(10)	(107)	(106)
Foreign currency translation effect	(226)	(66)	(5)	-
Closing balance	9,862	8,224	1,761	1,873
Unrecognised tax benefits – gross				
New Zealand ^(b)	3,308	27,445	3,308	27,445
Non New Zealand	-	3,289	-	-
Total unrecognised tax benefits	3,308	30,734	3,308	27,445

- (a) The Australian Government introduced consolidated income taxation of business groups on 1 July 2002 as part of the Business Tax Reform package. This allows wholly-owned groups of Australian entities to consolidate their tax returns and be treated as a single entity for taxation purposes. The Australian Feltex Group will enter into the tax consolidation regime with effect from 1 July 2003. The tax consolidation regime provided Feltex with an opportunity to reset the tax value of its assets.
- (b) Due to the Company's Initial Public Offer of shares and the resultant change of ownership of the Company on 2 June 2004, the Company was unable to carry forward tax losses, as it did not satisfy the shareholder continuity provisions of the Income Tax Act. This resulted in the reduction in the unrecognised tax benefit in New Zealand.



Notes to and forming part of the Financial Statements

For the year ended 30 June 2004

Income tax losses and timing differences are recognised only to the extent that there is virtual certainty of realisation in future periods.

Imputation Credits

	Company	
	June 2004 \$000	June 2003 \$000
Balance at beginning of the year	8,981	8,981
Imputation credits cancelled – shareholder continuity provisions	(8,981)	-
Balance at end of the year	-	8,981

Due to the Company's Initial Public Offer of shares and the resultant change of ownership of the Company on 2 June 2004, the Company was unable to carry forward imputation credits as it did not satisfy the shareholder continuity provisions of the Income Tax Act.

Franking Credits - Australia

	Group	
	June 2004 A\$000	June 2003 A\$000
Balance at beginning of the year	A\$7,933	A\$7,905
Movement during the year	-	A\$28
Balance at end of the year	A\$7,933	A\$7,933

An Australian wholly owned subsidiary of a New Zealand franking company is allowed to retain access to franking credits accumulated before 1 April 2003 for Trans-Tasman imputation credit purposes provided certain conditions are satisfied. As these conditions have not been satisfied, the franking credits of Feltex's wholly owned Australian subsidiary, Feltex Australia Holdings Pty Ltd, are not available for transition into the Trans-Tasman imputation regime. However, these franking credits can be used to offset any Australian dividend withholding tax on the distribution of dividends from Feltex Australia Holdings Pty Ltd to the New Zealand Parent entity, Feltex Carpets Limited.

Australian franking credits generated after 1 April 2003 will be eligible for inclusion and capable of being distributed by Feltex Carpets Limited to Australian resident Shareholders on a pro-rata basis. As the Australian Entity has not paid any tax since 1 April 2003, there are no franking credits available for transition into the Trans-Tasman imputation regime as at 30 June 2004.

Provision for Income Tax

	Group		Company	
	June 2004 \$000	June 2003 \$000	June 2004 \$000	June 2003 \$000
Balance at beginning of the year	-	336	-	78
Income tax refunded	35	42	-	42
Income tax Paid	-	(267)	-	-
Current taxation	1,372	(45)	3	(120)
Foreign currency translation effect	-	(66)	-	-
Balance at end of the year	1,407	-	3	-



Notes to and forming part of the Financial Statements

For the year ended 30 June 2004

5) Trade Receivables

	Group		Company	
	June 2004	June 2003	June 2004	June 2003
	\$000	\$000	\$000	\$000
Trade debtors – external	59,596	52,152	11,234	11,632
Trade debtors – associate companies	429	2,233	-	-
Less: Provision for doubtful debts	(1,581)	(1,668)	(311)	(477)
Total trade receivables	58,444	52,717	10,923	11,155

6) Other Receivables and Prepayments

	Group		Company	
	June 2004	June 2003	June 2004	June 2003
	\$000	\$000	\$000	\$000
Secured bonds				
issue expenses – current portion	-	928	-	928
Prepayments	3,692	1,297	1,746	52
GST receivable	473	1,146	473	1,146
Other	43	493	-	-
Receivables from subsidiary companies	-	-	11,699	10,064
Total other receivables and prepayments	4,208	3,864	13,918	12,190

7) Inventories

	Group		Company	
	June 2004	June 2003	June 2004	June 2003
	\$000	\$000	\$000	\$000
Raw materials	17,963	19,763	3,118	4,050
Work in progress	10,550	13,377	6,386	7,841
Finished goods	41,729	46,275	14,449	18,434
Total inventory	70,242	79,415	23,953	30,325

Certain inventories are subject to a retention of title clause.

8) Accounts Payable

	Group		Company	
	June 2004	June 2003	June 2004	June 2003
	\$000	\$000	\$000	\$000
Accounts payable – external	59,871	67,289	28,515	28,425
Amounts payable to subsidiary company	-	-	8,086	2,261
Non-resident withholding tax payable	5,836	-	5,836	-
Total Accounts Payable	65,707	67,289	42,437	30,686



Notes to and forming part of the Financial Statements

For the year ended 30 June 2004

9) Provisions

	Group		Company	
	June 2004	June 2003	June 2004	June 2003
	\$000	\$000	\$000	\$000
Current				
Employee entitlements	11,875	12,453	3,612	4,100
Warranties and claims	3,172	4,260	1,040	1,796
Total provisions - Current	15,047	16,713	4,652	5,896
Non-current				
Employee entitlements	1,172	1,336	-	-
Total provisions - Non-current	1,172	1,336	-	-

Reconciliation of Movement in Provisions
Employee entitlements

Balance at beginning of the year	13,789	14,141	4,100	5,530
Movement during the year	(352)	177	(488)	(1,430)
Foreign currency translation effect	(390)	(529)	-	-
Balance at end of the year	13,047	13,789	3,612	4,100
Current	11,875	12,453	3,612	4,100
Non-current	1,172	1,336	-	-
Total employee entitlements	13,047	13,789	3,612	4,100

Warranties and claims

Balance at beginning of the year	4,260	3,766	1,796	1,745
Movement during the year	(991)	508	(756)	51
Foreign currency translation effect	(97)	(14)	-	-
Balance at end of the year	3,172	4,260	1,040	1,796



Notes to and forming part of the Financial Statements

For the year ended 30 June 2004

10) Borrowings

	Group		Company	
	June 2004	June 2003	June 2004	June 2003
	\$000	\$000	\$000	\$000
Debentures	2	2	2	2
<i>Interest rate</i>	6.49%	6.37%	6.49%	6.37%
Term loan – bank	79,610	85,882	79,610	85,882
<i>Interest rate</i>	6.49%	6.37%	6.49%	6.37%
Term advance - bank	5,000	-	5,000	-
<i>Interest rate</i>	6.70%	-	6.70%	-
Term loan – other	1,606	3,436	-	-
<i>Interest rate</i>	6.20%	6.20%	-	-
Secured bonds	-	60,000	-	60,000
<i>Interest rate</i>	-	10.25%	-	10.25%
Finance lease	493	1,255	-	-
<i>Interest rate</i>	8.20%	8.20%	-	-
Total borrowings	86,711	150,575	84,612	145,884

Total borrowings are classified as follows:

Non-current portion	85,969	148,118	84,612	145,884
Current portion	742	2,457	-	-
Total borrowings	86,711	150,575	84,612	145,884

Repayable as follows:

Less than 1 year	742	2,457	-	-
Between 1 – 2 years	780	832	-	-
Between 2 – 5 years	85,189	87,286	84,612	85,884
Over 5 years	-	60,000	-	60,000
Total borrowings	86,711	150,575	84,612	145,884

Bank loans, commercial bills, bank overdrafts and other bank facilities provided by the ANZ Banking Group to the Group are secured by way of a first mortgage over land and buildings of the Group, and by fixed and floating charges over the assets and undertakings of the Group. The term loan of the Company's facility with the ANZ Banking Group expires on 1 July 2009; the term advance expires on 1 July 2006.

The term loan – other, is secured by a charge over the respective plant.

The finance lease is secured by a charge over the leased asset.

Interest rates are based on the interest rates as at 30 June 2004 and incorporate the effect of the relevant derivative contracts. Refer note 26 for the re-pricing analysis.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2004

11) Property, plant and equipment
Group June 2004

	Cost	Accumulated Depreciation	Book Value
	\$000	\$000	\$000
Land	22,541	-	22,541
Buildings and leasehold improvements	32,567	(4,630)	27,937
Plant and machinery – owned	50,835	(22,620)	28,215
Plant and machinery – leased	1,227	(123)	1,104
Furniture and fittings	992	(919)	73
Office equipment	8,213	(7,973)	240
Motor vehicles – owned	41	(35)	6
Total property, plant and equipment	116,416	(36,300)	80,116

Company June 2004

	Cost	Accumulated Depreciation	Book Value
	\$000	\$000	\$000
Land	7,085	-	7,085
Buildings and leasehold improvements	13,522	(1,230)	12,292
Plant and machinery	21,322	(7,578)	13,744
Furniture and fittings	988	(915)	73
Office equipment	8,182	(7,946)	236
Total property, plant and equipment	51,099	(17,669)	33,430

Group June 2003

	Cost	Accumulated Depreciation	Book Value
	\$000	\$000	\$000
Land	7,929	-	7,929
Buildings and leasehold improvements	28,066	(3,200)	24,866
Plant and machinery – owned	46,705	(19,071)	27,634
Plant and machinery – leased	1,279	-	1,279
Furniture and fittings	985	(850)	135
Office equipment	8,137	(6,974)	1,163
Motor vehicles – owned	45	(35)	10
Total property, plant and equipment	93,146	(30,130)	63,016

Company June 2003

	Cost	Accumulated Depreciation	Book Value
	\$000	\$000	\$000
Land	-	-	-
Buildings and leasehold improvements	461	(147)	314
Plant and machinery	18,524	(5,984)	12,540
Furniture and fittings	981	(846)	135
Office equipment	8,110	(6,947)	1,163
Total property, plant and equipment	28,076	(13,924)	14,152

Land and buildings have been mortgaged in respect of borrowings. Other assets are secured by fixed and floating charges as security for borrowings (refer to Note 10).

Land and buildings were re-valued based on independent valuations as at 31 March 2004, resulting in an increase in fixed assets of \$15.3 million (refer Note 15).

Notes to and forming part of the Financial Statements

For the year ended 30 June 2004

12) Term Receivables

	Group		Company	
	June 2004 \$000	June 2003 \$000	June 2004 \$000	June 2003 \$000
Debentures – subsidiary company	-	-	-	137,411
Term loan – subsidiary company	-	-	76,867	-
Secured bonds				
issue expenses – non current	-	3,905	-	3,905
portion				
Other	-	275	-	-
Total term receivables	-	4,180	76,867	141,316

13) Investments
Investments in subsidiaries:

Name	Principal Activity	% Interest of Company June 2004	% Interest of Company June 2003
<u>Investments in subsidiaries:</u>			
Operations Limited (a)	Property lessee	100%	100%
Carpet Mill Products New Zealand Limited (a)	Non trading	100%	100%
Feltex USA Incorporated (a)	Yarn distributor	100%	100%
Feltex Australia Holdings Pty Ltd (a)	Investment holding company	100%	100%
Feltex Australia Pty Ltd (b)	Manufacturer and distributor of carpet and yarn	100%	100%
Mellon Investments Pty Ltd (c)	Ownership of plant, equipment and property	100%	100%
Allmere Pty Ltd (c)	Investment in associate	100%	100%
Invicta Carpets Inc. (c)	Non trading	100%	100%
Shaw Tiles Australia Pty Ltd (c)	Manufacturer and distributor of carpet products	100%	100%
IGIPC Pty Ltd (d)	Ownership of plant and equipment	100%	100%
<u>Investments in associate:</u>			
Carpet Call (Holdings) Pty Ltd	Wholesale, retail and installation of floor covering	50%	50%

Balance date for all subsidiaries and associate is 30 June.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2004

13) Investments (continued)

- (a) directly controlled by Feltex Carpets Limited
- (b) directly controlled by Feltex Australia Holdings Pty Ltd
- (c) directly controlled by Feltex Australia Pty Ltd
- (d) directly controlled by Mellon Investments Pty Ltd

Associate	Group		Company	
	June 2004 \$000	June 2003 \$000	June 2004 \$000	June 2003 \$000
Share of operating surplus before income tax	2,338	1,668	-	-
Share of taxation expense	(719)	(521)	-	-
Share of operating surplus after income tax	1,619	1,147	-	-
Goodwill amortisation	(27)	(26)	-	-
Share of surplus after income tax	1,592	1,121	-	-
Dividends received from associate	(283)	-	-	-
Share of retained surplus after income tax	1,309	1,121	-	-
Share of retained surplus at beginning of the year	1,338	214	-	-
Foreign exchange revaluation of share of retained surplus	(95)	3	-	-
Share of retained surplus at end of the year	2,552	1,338	-	-
Cost of investment in associate	3,233	3,233	-	-
Foreign exchange revaluation of cost	(443)	(324)	-	-
Investment in Associate	5,342	4,247	-	-
Subsidiaries				
	Group		Company	
	June 2004 \$000	June 2003 \$000	June 2004 \$000	June 2003 \$000
Investments in Subsidiaries	-	-	66,148	9,008

14) Goodwill

	Group		Company	
	June 2004 \$000	June 2003 \$000	June 2004 \$000	June 2003 \$000
Goodwill at cost	44,043	44,043	-	-
Foreign exchange revaluation of cost	(5,408)	(4,098)	-	-
Accumulated amortisation	(8,466)	(6,492)	-	-
Goodwill	30,169	33,453	-	-

Notes to and forming part of the Financial Statements

For the year ended 30 June 2004

15) Reserves

	Group		Company	
	June 2004	June 2003	June 2004	June 2003
	\$000	\$000	\$000	\$000
Foreign currency translation reserve				
Opening balance	1,149	1,284	-	-
Movement during the year	(1,970)	(135)	-	-
Closing balance	(821)	1,149	-	-
General reserve				
Opening balance	-	-	-	(476)
Movement during the year	-	-	-	476
Closing balance	-	-	-	-
Revaluation reserve				
Opening balance	-	-	-	-
Revaluation of Land & Buildings during the year	15,295	-	8,539	-
Closing balance	15,295	-	8,539	-
Total reserves	14,474	1,149	8,539	-

Revaluation of land and buildings

Land and buildings were re-valued based on independent valuations as at 31 March 2004, resulting in an increase in fixed assets of \$15.3 million.

	Group	Company
	\$000	\$000
Fair value of land and buildings		
Land	22,541	5,885
Buildings	27,937	8,555

In Australia, land and buildings were independently valued as at 31 March 2004 by Mr Peter Dickinson AAPI CPV AAREI, Certified Practising Valuer with CB Richard Ellis.

In New Zealand, land and buildings were independently valued as at 31 March 2004, by Mr Paul Butchers BBS and SNZPI and Mr Bevan Fleming BBS and SNZPI, both of whom are registered valuers with CB Richard Ellis.

The valuations placed on land and buildings at the respective dates of valuation, were assessed on a "Fair Value" basis.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2004

16) Share Capital

	Group		Company	
	June 2004	June 2003	June 2004	June 2003
	\$000	\$000	\$000	\$000
Opening balance	19,505	19,505	19,505	19,505
Shares issued	50,000	-	50,000	-
Share issue expenses	(1,750)	-	(1,750)	-
Share capital	67,755	19,505	67,755	19,505
Represented by number of fully paid ordinary shares				
Opening balance	19,505,095	19,505,095	19,505,095	19,505,095
Bonus issue	1	-	1	-
Share split	100,494,904	-	100,494,904	-
New shares issued ^(a)	29,411,870	-	29,411,870	-
Total Ordinary Shares ^(b)	149,411,870	19,505,095	149,411,870	19,505,095

All shares have equal voting rights and share equally in dividends and surplus on winding up.

(a) New Shares issued on 2 June 2004 as part of the Company's Initial Public Offer of Shares.

(b) The Company's Shares were listed on the New Zealand Stock Exchange on 4 June 2004.

17) Earnings per share

	Company	
	June 2004	June 2003
Basic earnings per share		
The calculation of basic earnings per share is based on:		
Net surplus attributable to ordinary Shareholders - \$000	11,183	6,841
Weighted average number of shares		(a)
Opening balance	19,505,095	19,505,095
Bonus issue	1	1
Share split	100,494,904	100,494,904
New shares Issued – June 2004 (Weighted)	2,256,253	-
Weighted average number of shares	122,256,253	120,000,000
Basic earnings per share - cents	9.15	5.70

(a) In order to provide a meaningful comparison to the prior year, the earnings per share for 2003 has been calculated based on the number shares as if the bonus issue and share split had taken place at the beginning of financial year 2003.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2004

18) Dividends

	Company	
	June 2004	June 2003
	\$000	\$000
Current year final dividend of six cents per share (2003 – Nil) declared subsequent to balance date	8,965	-

19) Retained Earnings

	Group		Company	
	June 2004	June 2003	June 2004	June 2003
	\$000	\$000	\$000	\$000
Opening balance	(4,002)	(10,843)	20,317	10,287
Add: Net surplus for the year	11,183	6,841	(598)	10,506
Transfer to general reserve	-	-	-	(476)
Closing balance	7,181	(4,002)	19,719	20,317

20) Capital Expenditure Commitments

	Group		Company	
	June 2004	June 2003	June 2004	June 2003
	\$000	\$000	\$000	\$000
Capital expenditure commitments	5,136	1,198	3,016	1,097

21) Lease Commitments

Lease commitments under non-cancellable operating leases:

	Group		Company	
	June 2004	June 2003	June 2004	June 2003
	\$000	\$000	\$000	\$000
Less than one year	3,485	3,598	1,290	1,352
Between one and two years	2,686	2,465	766	723
Between two and five years	1,932	1,830	719	806
Greater than five years	1,012	979	1,012	56
Total operating lease commitments	9,115	8,872	3,787	2,937

Notes to and forming part of the Financial Statements

For the year ended 30 June 2004

Lease commitments under finance leases:

	Group		Company	
	June 2004	June 2003	June 2004	June 2003
	\$000	\$000	\$000	\$000
Less than one year	279	811	-	-
Between one and two years	256	291	-	-
Between two and five years	-	267	-	-
	535	1,369	-	-
Future finance lease charges	(42)	(114)	-	-
Net finance lease liability:	493	1,255	-	-
Current	248	736	-	-
Non-current	245	519	-	-
Net finance lease liability:	493	1,255	-	-

At the end of the lease term the Group has the option to purchase the plant and machinery. The Directors believe that it is highly likely that this option will be exercised.

22) Contingent Liabilities

Feltex Carpets Limited is the defendant in proceedings in Australia brought by Ceramic Funds Management Limited (CFM) over the supply of carpet. CFM is seeking damages totalling A\$430,501. Feltex has vigorously defended the claim and has counterclaimed against CFM alleging breach of contract and seeking damages of over A\$376,615. Attempts in 2003 to resolve this dispute by way of mediation were unsuccessful. If the parties are unable to agree to a settlement, the matter will proceed to Court.

23) Transactions with Related Parties

The subsidiaries and associated entity identified in note 13, are considered to be related parties of Feltex Carpets Limited.

During the year the following types of related party transactions occurred between Group entities:

Transaction Type	Class of related party
Purchase and sale of inventory	Subsidiary and associated entity
Plant utilisation charges	Subsidiary
Interest on debentures	Subsidiary
Interest on borrowings	Subsidiary
Management services fee	Subsidiary

During the year the Feltex Group paid legal fees of \$228,532 (June 2003 \$118,069) to Clendon Feeney, a firm with which Mr. C.E. Horrocks, a Director, is associated. The fees were charged on normal terms and conditions.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2004

24) Fees Paid to Auditors

	Group		Company	
	June 2004 \$000	June 2003 \$000	June 2004 \$000	June 2003 \$000
Audit	290	252	107	73
Taxation & assurance services	266	302	85	164
Independent Accountant's Report – Secured bond issue	-	386	-	386
Independent Accountant's Report – Share Offer (IPO) ^(a)	1,471	-	1,471	-
Total fees paid	2,027	940	1,663	623

(a) These fees were fully funded by Credit Suisse First Boston Asian Merchant Partners, L.P. (CSFBAMP) as part of the sale of its shareholding in the Company through the Initial Public Offer.

25) Geographical Segment Information - Group

	NEW ZEALAND		AUSTRALIA		USA		ELIMINATIONS		TOTAL	
	June 2004 \$000	June 2003 \$000	June 2004 \$000	June 2003 \$000	June 2004 \$000	June 2003 \$000	June 2004 \$000	June 2003 \$000	June 2004 \$000	June 2003 \$000
Sales	143,838	133,898	261,283	242,206	4,701	4,646	(87,215)	(67,338)	322,607	313,412
Interest revenue	11,987	12,376	33	874	-	-	(11,938)	(13,155)	82	95
Profit on sales of property, plant and equipment	42	8	(25)	22	-	-	-	-	17	30
Government grants & rebates	-	-	4,766	815	-	-	-	-	4,766	815
Share of dividend of associate company	-	-	283	-	-	-	-	-	283	-
Total operating revenue	155,867	146,282	266,340	243,917	4,701	4,646	(99,153)	(80,493)	327,755	314,352
Earnings before interest paid & income tax	22,323	25,088	23,710	10,171	(1,307)	(344)	(11,857)	(13,535)	32,869	21,380
Net surplus / (deficit)	(598)	10,606	12,972	(3,257)	(1,272)	(386)	81	(52)	11,183	6,841
Total assets	215,139	216,803	189,051	178,242	2,931	3,090	(147,537)	(145,370)	259,584	252,565

Notes to and forming part of the Financial Statements

For the year ended 30 June 2004

26) Financial Instruments
Credit Risk

To the extent that Feltex Carpets Group has a receivable from another party, there is a credit risk in the event of non-performance by that counter party. Financial instruments that potentially subject Feltex Carpets Group to credit risk consist principally of bank balances, receivables, foreign currency forward exchange contracts, forward rate agreements and financial guarantees.

Feltex Carpets Group manages exposure to credit risk.

Feltex Carpets Group performs credit evaluations on all customers requiring credit, but generally does not require collateral.

Feltex Carpets Group continuously monitors the credit quality of major financial institutions that are counter parties to its financial instruments, and does not anticipate non-performance by the counter parties.

Maximum exposure to credit risk at balance date were:

	Group		Company	
	June 2004	June 2003	June 2004	June 2003
	\$000	\$000	\$000	\$000
Bank balances	1,201	3,449	717	2,269
Receivables	58,444	52,717	10,923	11,155
Financial guarantees:				
Bank facilities of an associate company	-	2,737	-	2,737
Interest rate swaps – amounts payable	(622)	(117)	(622)	(117)

The maximum exposures stated are net of any recognised provision for losses on the financial instruments. No collateral is held on the above amounts.

Currency Risk

Feltex Carpets Group has exposure to foreign exchange risk as a result of transactions denominated in foreign currencies arising from normal trading activities. The currencies in which Feltex Carpets Group primarily transacts are US dollars, Great Britain pounds, Euros, Australian dollars and New Zealand dollars. Where exposures are certain it is the Feltex Carpets Group policy to hedge these risks as they arise. For those exposures less certain in their timing and extent, such as forecast sales and purchases, it is the policy of Feltex Carpets Group to cover a maximum of 50% of anticipated exposures for a maximum period of twelve months forward.

Feltex Carpets Group uses foreign currency forward exchange contracts to manage these exposures. At balance date the principal or contract amounts of foreign currency exchange contracts outstanding were:

	Group		Company	
	June 2004	June 2003	June 2004	June 2003
	\$000	\$000	\$000	\$000
Foreign exchange contracts				
On foreign currency payables	21,606	24,958	-	-
On foreign currency receivables	29,951	328	29,951	328

All third party foreign currency payables and receivables as at 30 June 2004 were hedged.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2004

Interest Rate Risk

At balance date the principal or contract amounts of interest rate contracts outstanding were:

	Group		Company	
	June 2004	June 2003	June 2004	June 2003
	\$000	\$000	\$000	\$000
Interest rate swaps	43,924	28,628	43,924	28,628

Feltex Carpets Group has exposure to interest rate risk to the extent that it borrows or invests for a fixed term at fixed rates. Feltex Carpets Group manages its cost of borrowing by placing limits on the proportion of borrowings at floating rate, and the proportion of fixed rate borrowing that is re-priced in any year.

Feltex Carpets Group uses interest rate swaps and forward rate agreements to manage interest rate risk.

Re-pricing Analysis

The following table identifies the period in which financial instruments that are subject to interest rate risk re-price. The effective interest rate incorporates the effect of the relevant derivative contracts.

Group	Effective Interest Rate	Total \$000	Six months or less \$000	Between 6-12 months \$000	Between 1-2 years \$000	Between 2-5 years \$000	Greater than 5 years \$000
June 2004							
Liabilities							
Term loan – bank	6.49%	79,610	35,686	-	10,981	32,943	-
Term adv. – bank	6.70%	5,000	5,000	-	-	-	-
Debentures	6.49%	2	2	-	-	-	-
Term Loan – other	6.20%	1,606	-	-	-	1,606	-
Finance Lease	8.20%	493	-	-	493	-	-
		86,711	40,688	-	11,474	34,549	-
June 2003							
Liabilities							
Commercial bills	6.37%	85,882	74,431	11,451	-	-	-
Debentures	6.37%	2	2	-	-	-	-
Term Loan – other	6.20%	3,436	-	-	-	3,436	-
Secured Bonds	10.25%	60,000	-	-	-	-	60,000
Finance Lease	8.20%	1,255	-	-	-	1,255	-
		150,575	74,433	11,451	-	4,691	60,000

Credit Facilities

Feltex Carpets Group has a total bank facility as follows:

	Group	
	June 2004	June 2003
	\$000	\$000
Term loan / Cash advance facility	126,282	97,334

Notes to and forming part of the Financial Statements

For the year ended 30 June 2004

Fair Values

The estimated fair values of financial instruments that differ from carrying values are as follows:

	Group		Group	
	Carrying Amount June 2004 \$000	Fair Amount June 2004 \$000	Carrying Amount June 2003 \$000	Fair Amount June 2003 \$000
Interest rate swaps – amounts (payable) / receivable	(622)	(16)	(117)	4

Bank Balances, Receivables, Payables & Bank Overdraft

The carrying value is the fair value for each of these classes of financial instruments.

Borrowings and Investments

The fair values of the Group's term liabilities and investments are estimated based on the current market rates available to the Group for items of a similar nature.

Foreign Currency Forward Exchange Contracts

The fair value of these financial instruments is based on the quoted market prices of comparable financial instruments.

Interest Rate Contracts

The fair value of these financial instruments is current market valuation (cash settlement requirement) based on published market rates.

Financial Guarantees

It is not practicable to estimate the fair value of financial guarantees within an acceptable level of reliability.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2004

27) Prospective Financial Information

In 2004, Feltex Carpets Limited issued a combined investment statement and prospectus in respect of an Offer of Shares in Feltex Carpets Limited. The information below is a comparison of the forecast against the actual financial performance.

**Statement of Financial Performance
For the year ended 30 June 2004**

Statement of Financial Performance For the year ended 30 June 2004	Group		Variance
	Actual	Forecast	
	12 Months - June 2004		
Note	\$000	\$000	\$000
Total Operating Revenue	(a) 327,755	335,498	(7,743)
Earnings before interest, tax, depreciation, amortisation and write-offs - EBITDA	(b) 42,151	41,641	510
Depreciation	(c) (7,308)	(8,076)	768
Earnings before interest, tax, amortisation and write-offs - EBITA	34,843	33,565	1,278
Amortisation of goodwill	(1,974)	(1,958)	(16)
Write-off of bank facility fee	(339)	(341)	2
Write-off of secured bond issue expenses	(4,882)	(4,881)	(1)
Earnings before interest and income tax	27,648	26,385	1,263
Interest expense	(13,466)	(13,307)	(159)
Premium paid on early redmption of secured bonds (Early Redemption Amount)	(4,800)	(5,014)	214
Operating surplus before income tax	9,382	8,064	1,318
Income tax benefit / (expense)	492	649	(157)
Net surplus after income tax	9,874	8,713	1,161
Share of retained surplus of associate companies after income	1,309	1,400	(91)
Net surplus attributable to ordinary Shareholders	(d) 11,183	10,113	1,070
Net surplus attributable to ordinary Shareholders (before amortisation, write-offs and Early Redemption Amount)	23,178	22,307	871

Notes - Refer page 48.



Notes to and forming part of the Financial Statements

For the year ended 30 June 2004

27) Prospective Financial Information (continued)

In 2004, Feltex Carpets Limited issued a combined investment statement and prospectus in respect of an Offer of Shares in Feltex Carpets Limited. The information below is a comparison of the forecast against the actual movements in equity.

**Statement of Movements in Equity
For the year ended 30 June 2004**

	Note	Group		Variance
		Actual	Forecast	
		12 Months - June 2004	June 2004	
		\$000	\$000	\$000
Equity at beginning of the year		16,652	16,652	-
Total recognised revenues and expenses				
Net surplus for the year	(e)	11,183	10,113	1,070
Foreign currency translation reserve	(f)	(1,970)	(159)	(1,811)
Revaluation reserve		15,295	15,394	(99)
Contribution from owners				
Shares issued		50,000	50,000	-
Share issue expenses		(1,750)	(1,750)	-
Equity at end of the year		89,410	90,250	(840)

Notes - Refer page 48.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2004

27) Prospective Financial Information (continued)

In 2004, Feltex Carpets Limited issued a combined investment statement and prospectus in respect of an Offer of Shares in Feltex Carpets Limited. The information below is a comparison of the forecast against the actual financial position.

**Statement of Financial Position
As at 30 June 2004**

Statement of Financial Position As at 30 June 2004	Note	Group		Variance
		Actual	Forecast	
		Jun 2004		
		\$000	\$000	
TOTAL ASSETS				
Current assets				
Cash		1,201	1,000	201
Other current assets	(g)	132,894	131,761	1,133
Non current assets				
Property, plant and equipment	(h)	80,116	78,290	1,826
Investments		5,342	5,653	(311)
Goodwill	(i)	30,169	31,311	(1,142)
Future income tax benefit		9,862	9,803	59
Total assets		259,584	257,818	1,766
TOTAL LIABILITIES				
Current liabilities				
Current portion of borrowings		872	770	102
Other current liabilities	(j)	82,161	71,163	10,998
Non current liabilities				
Borrowings	(k)	85,969	94,335	(8,366)
Employee entitlements		1,172	1,300	(128)
Total liabilities		170,174	167,568	2,606
Net assets		89,410	90,250	(840)
EQUITY				
Attributable to ordinary Shareholders		89,410	90,250	(840)
Net working capital	(l)	50,733	60,598	(9,865)
Net debt	(m)	85,640	94,105	(8,465)

Notes - Refer page 48.

For the year ended 30 June 2004

In 2004, Feltex Carpets Limited issued a combined investment statement and prospectus in respect of an Offer of Shares in Feltex Carpets Limited. The information below is a comparison of the forecast against the actual cash flow.

For the year ended 30 June 2004

Statement of Cash Flows For the year ended 30 June 2004	Note	Group		Variance
		Actual	Forecast	
		12 Months - June 2004	12 Months - June 2004	
		\$000	\$000	\$000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from				
Receipts from customers		322,983	328,260	(5,277)
Dividend income		283	283	-
Other income		4,883	4,737	146
		328,149	333,280	(5,131)
Cash was applied to				
Payments to suppliers and employees		(288,778)	(300,882)	12,104
Interest expense paid		(14,370)	(14,193)	(177)
Income tax paid		-	81	(81)
		(303,148)	(314,994)	11,846
Net cash inflow from operating activities		25,001	18,286	6,715
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was applied to				
Purchase of fixed assets (Net of disposals)	(h)	(10,308)	(8,500)	(1,808)
Net cash outflow from investing activities		(10,308)	(8,500)	(1,808)
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash was provided from				
Share issue		50,000	50,000	-
Proceeds from borrowings	(k)	5,000	15,000	(10,000)
		55,000	65,000	(10,000)
Cash was applied to				
Repayment of secured bonds		(60,000)	(60,000)	-
Payment of Early Redemption Amount		(4,800)	(5,014)	214
Payment of share issue expenses		(1,750)	(1,750)	-
Repayment of borrowings	(k)	(5,505)	(10,452)	4,947
		(72,055)	(77,216)	5,161
Net cash outflow from financing activities		(17,055)	(12,216)	(4,839)
Net increase / (decrease) in cash		(2,362)	(2,430)	68
Effect of exchange rate fluctuation on cash		(16)	(19)	3
Cash balances at beginning of the year		3,449	3,449	-
Cash balances at end of year		1,071	1,000	71

Notes - Refer page 48.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2004

27) Prospective Financial Information (continued)**Explanations for variances to forecast**

- (a) Sales were lower than forecast by \$7,743,000 mainly due to the following:
- Lower than forecast sales in April and May 2004, particularly in the lower price value segments of the business. The shortfall was to some extent made up by the stronger than forecast sales in the month of June 2004. Sales were below forecast in the fourth quarter; however the Group achieved a superior product mix of sales, yielding higher than forecast margins; and
 - The translation impact of the stronger New Zealand dollar in the month of June 2004 on the Group's Australian sales when translated from Australian dollars into New Zealand dollars for reporting purposes.
- (b) EBITDA was higher than forecast by \$510,000 mainly due to the superior product mix of sales, yielding higher than forecast margins and actual overheads lower than forecast.
- (c) The depreciation charge was \$768,000 below forecast mainly due to the timing of capital expenditure; i.e. capital expenditure being incurred later than forecast. Excluding the Foxton property purchase at the end of June 2004, actual capital expenditure was \$2,691,000 below forecast. This amount is included in the capital expenditure commitments as at 30 June 2004 – refer note 20.
- (d) Net surplus attributable to ordinary Shareholders exceeded forecast by \$1,070,000, mainly due to higher than forecast EBITDA of \$510,000 (refer note (b) above) and lower than forecast depreciation of \$768,000 (refer note (c) above).
- (e) Refer above explanations.
- (f) The foreign currency translation reserve arises on the translation of the Company's Australian subsidiary's assets and liabilities into New Zealand dollars for reporting purposes. The forecast assumed an exchange rate of 0.8772 A\$ per NZ\$, whilst the actual spot exchange rate as at 30 June 2004 was 0.9107 A\$ per NZ\$.
- (g) Current assets were higher than forecast by \$1,133,000 mainly due to the higher than forecast trade debtors as at 30 June 2004. Trade debtors were above forecast due to the higher than forecast sales in June 2004.
- (h) As noted above in note (c), actual capital expenditure, excluding the purchase of the Foxton property at the end of June 2004, was less than forecast by \$2,691,000 mainly due to the timing of the expenditure. This amount is included in the capital expenditure commitments as at 30 June 2004 (refer note 20), and will be incurred in the forthcoming financial year. The purchase of the Foxton property and the lower depreciation charge (refer note (c) above), offset by the lower capital expenditure, resulted in fixed assets being higher than forecast by \$1,826,000.
- (i) Goodwill was less than forecast due to the translation impact of a stronger than forecast New Zealand dollar at year end. The forecast assumed an exchange rate of 0.8772 A\$ per NZ\$, whilst the actual spot exchange rate as at 30 June 2004 was 0.9107 A\$ per NZ\$.
- (j) Current liabilities were higher than forecast by \$10,998,000 due to the following:
- Non-resident withholding tax payable – the forecast assumed that this amount would be paid prior to year end but was not required to be paid until 20 July 2004.
 - The purchase of the Foxton property was concluded prior to year end, but settlement occurred on 14 July 2004. This amount was accrued at year end.
- (k) Borrowings were \$8,366,000 below forecast mainly due to the following:
- The payment of the non-resident withholding tax amount of \$5,836,000, forecast to be paid prior to year end but only required to be paid on 20 July 2004.
 - Lower actual capital expenditure of \$2,691,000 (refer note (h) above).
- (l) Working capital was \$9,865,000 below forecast. For explanations, refer note (g) and (j) above.
- (m) Net debt was \$8,465,000 below forecast. For explanations, refer note (k) above.

Shareholder Information

For the year ended 30 June 2004

Stock Exchange Listing

The Company's ordinary shares are listed on the New Zealand Stock Exchange. The ordinary shares were listed on 4 June 2004.

Distribution of Security Holders and Security Holdings as at 31 July 2004

Size of Holding	Number of security holders		Number of securities	
1 - 999	84	0.93%	47,503	0.03%
1,000 - 4,999	4,296	47.50%	11,113,775	7.44%
5,000 - 9,999	2,449	27.08%	15,699,964	10.51%
10,000 - 49,999	1,995	22.06%	34,513,493	23.10%
50,000 - 99,999	134	1.48%	8,416,350	5.63%
100,000 -	86	0.95%	79,620,785	53.29%
	9,044	100.00%	149,411,870	100%

Geographic distribution

New Zealand	8,998	99.49%	148,907,303	99.66%
Australia	17	0.19%	276,463	0.19%
Rest of the world	29	0.32%	228,104	0.15%
	9,044	100%	149,411,870	100%

20 Largest Registered Holders of Quoted Equity Securities as at 31 July 2004

	Number	%
National Nominees New Zealand Limited	16,024,760	10.73%
Leveraged Equities Custodians Limited	7,528,853	5.04%
Accident Compensation Corporation	5,694,118	3.81%
First NZ Capital Custodians Limited	4,562,324	3.05%
ANZ Nominees Limited	4,153,833	2.78%
Forbar Custodians Limited	3,824,809	2.56%
Forbar Custodians Limited	3,452,438	2.31%
Westpac Banking Corporation – Client Assets No.2	3,293,300	2.20%
Forbar Custodians Limited	3,231,657	2.16%
First NZ Capital Custodians Limited	3,140,335	2.10%
South Canterbury Finance Limited	3,095,975	2.07%
Custodial Services Limited	1,828,413	1.22%
Jarden Custodians Limited	1,766,882	1.18%
Custody and Investment Nominees Limited	1,127,000	0.75%
Custodial Services Limited	896,789	0.60%
First NZ Capital Custodians Limited	829,773	0.56%
Forbar Custodians Limited	815,437	0.55%
Forbar Custodians Limited	679,492	0.45%
Tea Custodians Limited – NZ Mid Cap Index Fund A/C	643,107	0.43%
Colman Securities Limited	619,195	0.41%
	67,208,490	44.96%

Shareholder Information

For the year ended 30 June 2004

Substantial Security Holders as at 31 July 2004

	Voting securities	
	Number	%
Hunter Hall Investment Management	13,500,000	9.04%

As at 31 July 2004 the total number of issued voting securities of Feltex Carpets Limited was 149,411,870.

Directors' Security Holdings as at 30 June 2004

Equity securities in which Directors have a relevant interest

	Number of Shares	Number of Options	Total Number of Equity Securities
Michael Feeney	221,481	-	221,481
Craig Horrocks	258,395	-	258,395
David Hunter	252,441	-	252,441
Samuel Magill	2,460,895	1,812,500 ^(a)	4,273,395
Tim Saunders	500,000	-	500,000
Peter Thomas	522,940	-	522,940
Total	4,216,152	1,812,500	6,028,652

(a) 1,812,500 options to acquire equity securities – refer Share Options note below.

Statutory Information

For the year ended 30 June 2004

Directors and Remuneration

The Board's remuneration policy is to ensure that the remuneration package properly reflects the person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

Executive Directors and senior executives may receive bonuses based on the achievement of specific goals related to the performance of the consolidated entity. Non-executive Directors do not receive any performance related remuneration.

Details of the nature and the amount of each major element of emoluments received by each Director of the Company and the subsidiaries are:

	Fees \$000	Salary \$000	Bonuses \$000	Other \$000	Total \$000
Company					
Michael Feeney	73	-	-	-	73
Craig Horrocks	80	-	-	-	80
David Hunter	80	-	-	-	80
Tim Saunders	100	-	-	-	100
Peter Thomas	7	-	-	-	7
Joan Withers	20	-	-	-	20
	360	-	-	-	360
Subsidiaries					
Feltex Australia Pty Ltd					
Samuel Magill	-	510	450	1,537 ^(a)	2,497
Allmere Pty Limited					
Michael Feeney	27	-	-	-	27
Total remuneration	387	510	450	1,537	2,884

(a) Refer retention payment note below.

Retention Payment

At the request of Credit Suisse First Boston Asian Merchant Partners, L.P. (CSFBAMP), the Shareholder of Feltex Carpets Limited at the time, the Company entered into a retention deed with Mr Magill. Pursuant to this retention deed, Mr Magill received a retention payment of \$1,537,000 to ensure his ongoing services to the Company following the Initial Public Offering. The retention payment was fully funded by CSFBAMP as part of the sale of its shareholding in the Company through the Initial Public Offer. The retention payment was a one-off payment and there is no cost to the Company in relation to this arrangement.

Share Options

During the 2004 financial year 1,812,500 options to subscribe for shares in Feltex Carpets Limited were issued to Mr Samuel Magill under Share Option Plan A.

Statutory Information

For the year ended 30 June 2004

Interests Register

The following entries were made in the interests register during the year.

Name of Director	Details of Relevant Interest (Acquired either directly or by a related party)	Date Interest Disclosed
Tim Saunders	500,000 shares through Initial Public Offer for a consideration of \$850,000.	2 June 2004
Sam Magill	2,460,895 shares through Initial Public Offer for a consideration of \$4,183,522. 1,812,500 options to subscribe for Shares in Feltex Carpets Limited were issued to Mr Sam Magill under Share Options Plan A.	2 June 2004
Michael Feeney	221,481 shares through Initial Public Offer for a consideration of \$376,518.	2 June 2004
Craig Horrocks	258,395 shares through Initial Public Offer for a consideration of \$439,272.	2 June 2004
David Hunter	221,481 shares through Initial Public Offer for a consideration of \$376,518. 30,960 shares through Initial Public Offer by converting \$50,000 of Feltex secured bonds into shares under the Enhanced Priority Offer.	2 June 2004
Peter Thomas	522,940 shares through Initial Public Offer for a consideration of \$888,998.	2 June 2004

Directors and Officers Insurance

The Company has arranged policies of Directors' and Officers' Liability Insurance to cover, to the extent normally covered by such policies, the risks arising out of acts or omissions of Directors and Employees of Feltex and its subsidiaries in their capacity as such.

Directors of Subsidiary Companies

Subsidiary	Tim Saunders	Sam Magill	Michael Feeney	Peter Thomas	Russell Martin
Operations Limited	✓	✓		✓	
Carpet Mill Products New Zealand Limited	✓	✓		✓	
Feltex USA Incorporated		✓			
Feltex Australia Holdings Pty Ltd	✓	✓	✓	✓	
Feltex Australia Pty Ltd	✓	✓	✓	✓	
Mellon Investments Pty Ltd	✓	✓	✓	✓	
Allmere Pty Ltd			✓		✓
Invicta Carpets Inc.		✓			
Shaw Tiles Australia Pty Ltd		✓	✓		
IGIPC Pty Ltd	✓	✓	✓	✓	

Statutory Information

For the year ended 30 June 2004

Executive Employees' Remuneration

(Excluding retention payments – refer retention payments note below).

During the year the following numbers of employees received remuneration of at least \$100,000.

			Number of employees
Company			
100,000	to	110,000	3
110,000	to	120,000	4
120,000	to	130,000	5
130,000	to	140,000	1
140,000	to	150,000	2
180,000	to	190,000	2
270,000	to	280,000	1
310,000	to	320,000	1

Subsidiaries
Feltex Australia Pty Ltd

100,000	to	110,000	8
110,000	to	120,000	8
120,000	to	130,000	6
130,000	to	140,000	9
140,000	to	150,000	6
160,000	to	170,000	3
170,000	to	180,000	5
180,000	to	190,000	1
190,000	to	200,000	2
200,000	to	210,000	1
230,000	to	240,000	1
250,000	to	260,000	1
270,000	to	280,000	2
280,000	to	290,000	1
290,000	to	300,000	1
600,000	to	610,000	1

Feltex USA Inc.

200,000	to	210,000	1
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Retention Payments

At the request of Credit Suisse First Boston Asian Merchant Partners, L.P. (CSFBAMP), the Shareholder of Feltex Carpets Limited at the time, the Company entered into retention deeds with the ten senior managers of the company (other than Mr Magill). Pursuant to these retention deeds, the senior managers received retention payments ranging from \$247,000 to \$914,000 to ensure their ongoing services to the Company following the Initial Public Offering. The amounts of the retention payments were fully funded by CSFBAMP as part of the sale of its shareholding in the Company through the Initial Public Offer. Each of the retention payments were a one-off payment and there is no cost to the Company in relation to these arrangements.

Trend Statement

	June 2004 12 Months \$000	June 2003 12 Months \$000	June 2002 12 Months ⁽³⁾ \$000	June 2001 12 Months ⁽²⁾ \$000	June 2000 11 Months ⁽¹⁾ \$000
Statement of Financial Performance					
Total operating revenue	327,755	314,352	322,506	350,735	162,335
Earnings before interest & income tax	32,869	21,380	1,816	6,246	11,182
Financing expense	(23,487) ⁽⁴⁾	(15,695)	(19,977)	(18,799)	(6,730)
Operating surplus / (deficit) before income tax	9,382	5,685	(18,161)	(12,553)	4,452
Income tax benefit / (expense)	492	35	(383)	(255)	(2,106)
Net surplus / (deficit) after income tax	9,874	5,720	(18,544)	(12,808)	2,346
(Surplus) / deficit after income tax attributable to minority Shareholders in subsidiary companies	-	-	(241)	202	(50)
Share of retained surplus / (deficit) of associate companies after income tax	1,309	1,121	502	(575)	311
Net surplus / (deficit) attributable to Shareholders	11,183	6,841	(18,283)	(13,181)	2,607

Statement of Financial Position

Total assets	259,584	252,565	230,822	274,714	303,472
Total tangible assets	229,415	219,112	195,010	233,760	260,971
Total liabilities	170,174	235,913	220,876	247,950	266,206
Net assets (Total equity)	89,410	16,652	9,946	26,764	37,266

Notes

- (1) Following the merger with Shaw Industries Australia in May 2000, Feltex changed its year end to 30 June.
- (2) The year ended 30 June 2001 was the first full year that included the financial results of Feltex Australia Pty Ltd (formerly Shaw Industries Australia Pty Ltd).
- (3) In April 2002, the Group sold its interest in Andersens Home Furnishings Co Pty Ltd. The operating results of Andersens Home Furnishings Co Pty Ltd have been excluded from the statement of financial performance from that date. This reduced total operating revenue by \$19.2 million.
- (4) Financing expense for the year ended 30 June 2004 includes the following (Refer note 3 on page 36):
 - Write-off of bank facility fee - \$339,000;
 - Write-off of secured bond issue expenses, \$4,882,000; and
 - Premium paid on early redemption of secured bonds, \$4,800,000.

Annual Meeting

Notice of Annual Meeting

Notice is hereby given that the 2004 Annual Meeting of Shareholders of Feltex Carpets Limited ("the Company") will be held in Auckland on Tuesday 12 October 2004 at 2pm at the following venue:

Guineas Room
3rd Floor, Ellerslie Convention Centre
Ellerslie Racecourse
Greenlane Road East
Auckland

Business**A. Financial Statements**

To receive and consider the Company's financial statements for the year ended 30 June 2004, and the Auditor's report on those financial statements as contained in the Company's Annual Report.

B. Resolution 1: Remuneration of Auditor

To consider and, if thought fit, to pass the following ordinary resolution:

2. That the Company's Board of Directors be authorised to fix the Auditor's remuneration.

C. Resolutions 2 and 3: Election of Directors

To consider and, if thought fit, to pass the following ordinary resolutions:

3. That Mr T.E.C. Saunders be re-elected as a Director of the Company.
4. That Mr P. Thomas be re-elected as a Director of the Company.

Explanatory notes in relation to the proposed resolutions are set out below.

EXPLANATORY NOTES**Resolution 1: Auditor**

Ernst & Young are automatically reappointed as the Company's Auditor under section 200 of the Companies Act 1993. This resolution authorises the Board to fix the fees and expenses of the Auditor.

Resolutions 2 and 3: Election of Directors

Two Directors, Mr T.E.C. Saunders and Mr P. Thomas, retire by rotation and offer themselves for re-election at the Annual Meeting. Brief biographical details of the Directors standing for re-election are set out on pages 10 to 12 of the Company's 2004 Annual Report.

Under Listing Rule 3.3.1A of the Listing Rules of New Zealand Exchange Limited (the "Listing Rules"), the Board must determine which of its Directors are "Independent Directors" (as that term is defined in the Listing Rules). An "Independent Director" is defined in Listing Rule 1.1.2 as a Director who is not an executive of the Company and who has no direct or indirect interest or relationship that could influence, in a material way, the Directors' decisions in relation to the Company.

In the Board's view, Mr T.E.C. Saunders and Mr P. Thomas each qualify as an "Independent Director" (as that term is defined in the Listing Rules).

The Board unanimously recommends Shareholders vote in favour of the re-election of Mr T.E.C. Saunders and Mr P. Thomas.

Annual Meeting

Proxies

1. All Shareholders are entitled to attend the meeting.
2. All Shareholders are entitled to vote at the meeting.
3. A shareholder entitled to vote, may appoint a proxy to attend and vote in their place.
4. A proxy need not be a Shareholder of the Company.
5. The Chairman of the meeting is willing to act as proxy for any Shareholder who may wish to appoint him for that purpose.
6. If the proxy form is returned without a direction as to how the proxy shall act on a resolution, the proxy will exercise the proxy's discretion as to whether to vote and, if so, how.
7. If the proxy is signed under a power of attorney, this must be produced for noting by the Company, if not already noted. A declaration of non-revocation of the power of attorney must be attached.
8. Companies appointing a proxy must do so under the signature of two Directors or have an authority produced for noting by the company.
9. Completed proxies must be received by the Company's Share Registrar no later than 48 hours prior to the meeting, being 2:00 pm Sunday 10 October 2004.

The Share Registrar
Feltex Carpets Limited
C/- Computershare Investor Services Limited
Private Bag 92119
Auckland, 1020
New Zealand

By order of the Board

Tim Saunders
Chairman

20 September 2004