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**feltex**  
*Reserve*  
SELECTION

**feltex**  
**classic**

**feltex**  
**COMMERCIAL**

**feltex** | woven



**Kensington**  
Carpet that outlasts

**Redbook**



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## FINAL RESULT

The final result for the year after one-off costs was a net surplus of \$11.8 million, compared to the previous year's result after one-off costs of \$11.2 million.

The financial year to June 2005 can be described as a year of two halves. The first half was strong and the company achieved a net surplus of \$12.2 million. This met our six month budgeted net profit after tax.

However, the second half was poor with a net surplus of only \$807,000 before one-off costs.

We have written to shareholders on several occasions about the changes that affected us in the second half, but it is important to repeat them here in this annual report. This is because our analysis of what has happened to the carpet market sets the scene for the wide-ranging actions your Board has taken since early April.

It was in late March that it became clear to the Board that the drop-off in profitability was not a result of a short-term seasonal dip in sales, but was the result of structural shifts in the market that were unlikely to reverse in the near future. It also highlighted that our business was not in a satisfactory state to absorb an extended down-turn. This dictated a need for fundamental changes to the company.

## MARKET DOWNTURN

In New Zealand, where the economy has been strong, and where the carpet market is predominantly wool (and therefore synthetic imports have had less penetration), our sales increased by 8.1% over the previous financial year, and margins were held *during the financial year*. We were pleased with our performance in the New Zealand market. There are signs that the New Zealand economy is beginning to soften since the third quarter of the 2005 financial year.

By contrast, in Australia, where 75% of our total sales are generated, and where 60% of our sales are in the synthetic sector (and therefore are subject to greater import competition), our sales fell 7.6% and gross margins in Australia fell 3.3%. Compared to the first half of the financial year, Australian gross margins in the second half fell by nearly 10 percentage points. By the end of March, Australian consumer confidence, renovations, and new building permits had fallen right away. The drop in consumer sentiment reported in

March was the biggest drop in 30 years. This translated directly to a drop in our Australian sales.

Other factors were also involved in the Company's poor performance. These are discussed below.

## Rises in synthetic raw material costs

Synthetic raw material costs rose, indirectly linked to the price of oil. Whilst we anticipated these raw material cost increases, we were unable to fully pass these on in our selling prices because of intense competition in the Australian market. Margins were affected as we tried to hold market share.

## The strong dollar and the rise of imports

In addition, the strong Australian dollar encouraged an increase in imported carpet of all types. In Australia the market share of imported carpet rose during the year. In an environment of rapidly decreasing demand, the sales volume of locally manufactured carpet dropped, as did margins.

The average selling price for our carpets in Australia in the second six months was 3.9% lower than the first six months.

## Launch of new products and rise in cost of samples for new ranges

We have previously talked about how we are differentiating ourselves with our top end brands for residential carpets – Feltex Reserve, Feltex Classic and Redbook. As a result of our capital expenditure in new technology and new manufacturing plant in financial years 2004 and 2005, we launched many new products, colours and designs for our key brands and ranges during the 2005 financial year, particularly in the second half of the year. Unfortunately, these initiatives coincided with the down-turn in the market. The production of samples required to sell these new carpets into the retail channel led to a one-off increase in costs that adversely affected our result. Sampling costs in the second half were \$1 million higher than in the first half and \$2.1 million higher than budget. For the full year sampling costs were \$1.7 million higher than the previous year.

## Stock levels

Our average production cycle for woollen carpets, from raw materials purchased to finished goods is four months and for synthetic carpets about four weeks. By the time the extent of the down-turn in market

demand became apparent in late March, the future production decisions had been made. By the time we had been able to slow production down, stock levels at the end of the financial year had built up by \$10m-\$15m over normal levels. Overall inventory levels have been addressed since financial year end, and we have an objective to have reduced inventory by at least \$10 million by December 2005.

## **THE GROUP ANNUAL PERFORMANCE**

Operating revenue for the year was \$300 million. The Group recorded a net surplus of \$13 million for the year ended June 2005, compared to \$25.2 million in the previous year.

EBITDA for the second six months was \$8.6 million, down 65% on the first six months of the financial year.

EBITDA for the year ended June 2005 was \$33.2 million compared to \$46.2 million in the prior year.

The above figures exclude the one-off restructuring cost of \$1.3 million net of tax.

## **THE BOARD'S RESPONSE TO THE DOWNTURN**

The response of the Board has been to focus on medium to longer term strategies, whilst ensuring confidence is maintained in Feltex in the short-term. The aim is to put the business in a more sustainable position to withstand cycles, more rapid shifts in demand, currency / competitive movements, and higher levels of imports. In addition, a number of short term measures for immediate improvement have been implemented.

The Board did have longer term plans to improve the business, which were to be spread over several years to reduce the costs of the changes. The third and fourth quarter crunch called for far faster action and in the short term, higher restructuring costs. However, the benefits should come through earlier.

In summary, our cost structures were found to be too high, our average production cycle too long and inflexible, and many of our systems too rigid. Also the volatility in market conditions that we have experienced and the higher level of imports are expected to continue. These factors underpin the changes we are making.

## **Change in leadership team**

With the low second six months result, the Board considered that the time was right to bring through

a new management team. The Board announced that a new Chief Executive Officer would be appointed following an executive search that was immediately initiated. Three long-standing members of the senior management team: John Kokic, Chief Operating Officer; Rod Lyons, General Manager Residential Sales; and John Shackleton, General Manager Distribution and Customer Services, also retired at this time. There is a one-off restructuring cost of \$1.3m after tax in the accounts for the changes in the senior management team.

Two new National Sales Managers, a General Manager Strategic Planning, and a General Manager Supply Chain have been appointed from within Feltex.

The Board is currently interviewing candidates for the CEO role with an objective to have that appointment made in the near future.

## **Management structure review**

The Board implemented a review of the management structure and a further 42 positions were made redundant. This was an immediate action to begin rebalancing our cost structure. On an annualised basis the savings from the reduction in 42 staff will be \$4 million before tax. The one-off costs of \$3.4 million before tax for this restructuring will be included in the next year's results.

## **Reduction in production**

Given the slower market conditions, management immediately assessed methods of slowing production in the plants. The aim is to better align the inventory levels to the forecast sales levels for the 2006 financial year. The slow-down in the plants will result in an adverse manufacturing cost performance in the first half of this financial year. The realignment of production has been undertaken with the cooperation of the unions and plants are operating on reduced hours.

## **Operational review**

The Board initiated an operational review and has a number of work-streams under way. By October most decisions arising out of these work-streams will have been finalised and we are hopeful that the major initiatives will all be in place (albeit not fully implemented) by December. These are expected to re-balance the company to take into account new realities in the structure of the Australasian market.

## HOW WE ARE VIEWING THE MARKET AND OUR OPERATIONS

### Imports and the high volume segment

With both the Australian and New Zealand Governments seeking Free Trade Agreements we believe imports will remain a permanent feature of the carpet market and increase further even if both the Australian and New Zealand currencies weaken. In particular, imports have affected our lower priced, high volume carpet segments but they may come to impact us across the whole synthetic product profile. We are reviewing the extent of our manufacturing participation in the high volume segment.

### The role of synthetic carpet

It is not the case that our synthetic carpets are all in the low margin, high volume segments. Some of our highest margins are achieved on Redbook synthetic carpet ranges. We are assessing which segments of the synthetic market are likely to remain profitable for the Company and which we should continue to service. We are also assessing new technologies which may strengthen our niche position in certain synthetic markets. What is important is to be able to promptly deliver designs and styles that the local market is seeking at competitive prices.

### Our role as an importer

We are reviewing to what extent we should become an importer. We already import carpet tiles that are Feltex branded and we could increase our presence as a synthetic carpet importer in either the high volume or the high value end of the market, or both. If we do so, we would still manufacture carpet for those segments where we can best compete against international competition.

### The location of operations

We are reviewing where both our synthetic and woollen operations are located, taking into account operating advantages and relative costs of different plants.

In summary, when the operational review is complete we will have rebuilt Feltex to take into account the new realities of the market – higher levels of imports, ongoing strength of the Australian and New Zealand dollars, the higher cost of synthetic raw material costs indirectly driven by increased costs of oil, the need to better align our manufacturing to the higher value

segments of the residential market, and to better achieve a competitive cost structure.

### GODFREY HIRST

In June, Godfrey Hirst bought a 5.8% stake in the company on the open market and expressed interest in merger talks. Godfrey Hirst commenced operations as a New Zealand company and is now substantially based in Australia. The Godfrey Hirst group of companies is privately owned by the McKendrick family interests.

We have commenced discussions with the management and owners of Godfrey Hirst and we are exchanging information. The Board's position is that it will assess the value to shareholders of any merger opportunity against the value of the re-vamped Feltex business trading on its own. We are assessing whether there will be a material increase in value for Feltex shareholders arising from some form of merger. The Board has an open mind on this or any other alternative.

### OUR MARKETING

New Zealand is the most cost-efficient producer of coarse wool in the world. Our wool business is built on applying our skills in design and fashion to the manufacture of leading carpets for the home and for the office in Australia and New Zealand. We have a comparative advantage with our wool raw materials that we must continue to exploit and build on.

Whether it is synthetic carpet or wool, Feltex must differentiate itself with Australasia's capabilities in design and fashion, for which there is growing international recognition.

We continue to invest in our brands with new designs, colour ranges and marketing initiatives through this difficult period. We have included an insert with this annual report so that you can see the standard of marketing that the team is undertaking.

When the upturn in sales demand does occur, we believe this continued investment in our brands and distribution channels will pay off. The recovery following the rapid decline in sales after the Sydney Olympics and the introduction of GST in Australia was surprisingly strong when it did occur.

At the AGM in December we will have many of our carpet ranges on display as well as examples of the in-store promotional material and magazine and television advertising for you to review.

## OUR STAFF

The Board is conscious that this is a very difficult time for staff.

They have seen a number of their colleagues leave the company after many years of long service. The ongoing operational review is unsettling for staff as well, as the Board and management work on what will be the best configuration of operations for the years ahead.

We deal with a number of unions who represent our work-force and the relationships are professional and based on mutual respect.

We are very sensitive to the impact of the changes we are making on the lives of a number of our long-serving staff. This is difficult and a task that we do not relish in any way. Unfortunately, we have little option other than to make these significant changes which are necessary to secure the company's long-term future.

We can only say that as a Board we acknowledge the enormous contribution of our employees to the success of our brands, and our business.

We thank them for their loyalty and for the quality of their work.

## DIRECTORS

In May, we accepted the resignation of Joan Withers upon her acceptance of the role of CEO of Fairfax New Zealand Ltd. Joan was a member of the Board's Occupational Health and Safety, and Audit and Risk Management committees.

After eight years, Craig Horrocks stepped down from the Board. He was most recently the Chairman of the Board's Audit and Risk Management committee.

Both Joan and Craig served the company well.

We are grateful to Peter Thomas who has agreed to be Executive Director until the appointment of the new CEO. Peter has been on the Board since 1996 and has an excellent understanding of the business.

We are operating with a leaner Board during this period of reconstruction.

## ANNUAL GENERAL MEETING

We invite you to attend the Annual General Meeting to be held at 11 am on 1 December at the Aotea Centre in Auckland to discuss the position of your company and its future. We will have made a number of decisions on the operational review by that time. A notice of the meeting will be sent to shareholders in due course.

## SUMMARY

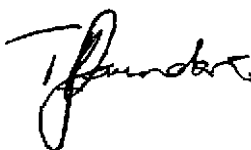
Since we realised that the downturn was more than a short-term seasonal dip, the Board has acted quickly and decisively to re-shape the company to take into account the new market factors. This will build sustainable value for shareholders for the next few years.

We are operating in a highly competitive global market, and we are positioning the company to be much more responsive to changes in the environment as they occur. We do not expect the situation to remain static.

The Board is very aware that for many shareholders the value of their holding in the company is much less than when purchased. We are also acutely aware that in the second half of the year the company has not traded at the level of the IPO earnings projection for the period. The Board regrets this situation and is working hard to restore the value in the company.

We have a vision for Feltex of a vibrant and profitable Australasian manufacturer, importer and marketer of a full range of contemporary carpets. We have a sound understanding of what has to be done to realise this vision and restore value to the business.

When we have done so, we trust that the market will recognise the value of your holding. We know that it would be easy to cease being a shareholder and the Board appreciates your loyalty to Feltex.



**TIM SAUNDERS**

Chairman

## Financial and Operations Review

After a strong first half to the financial year, Feltex experienced a difficult and disappointing second half. The net surplus for the six months ended June 2005 was \$807,000, compared with a net surplus of \$12.2 million in the first six months of the financial year and \$13.8 million in the prior corresponding period.

The Group recorded a net surplus of \$13 million for the year ended June 2005, compared to \$25.2 million in the previous year.

EBITDA for the second six months was \$8.6 million, down 65% on the first six months of the financial year reflecting a much softer market than anticipated by the Group as well as other significant issues described below.

EBITDA for the year ended June 2005 was \$33.2 million compared to \$46.2 million in the prior year.

The above figures exclude the one-off restructuring cost of \$1.3 million net of tax.

### COMPARISON OF SIX MONTHS PERFORMANCE (Before one-off costs)

|   | JUNE 2005<br>6 MONTHS<br>\$000 | DEC 2004<br>6 MONTHS<br>\$000 | CHANGE<br>% | JUNE 2004<br>6 MONTHS<br>\$000 | CHANGE<br>% |
|---|--------------------------------|-------------------------------|-------------|--------------------------------|-------------|
| Operating revenue   | 139,311                        | 160,888                       | (13.4%)     | 154,887                        | (10.1%)     |
| EBITDA<br>(Earnings before interest, taxation, depreciation and amortisation) | 8,597                          | 24,563                        | (65.0%)     | 23,200                         | (62.9%)     |
| Net surplus   | 807 <sup>(1)</sup>             | 12,226                        | (93.4%)     | 13,813 <sup>(2)</sup>          | (94.2%)     |

Compared to the prior corresponding period, sales were \$15.7 million lower, with the shortfall analysed as follows:

- New Zealand sales increased by \$1.6 million;
- Yarn sales in the USA increased by \$0.5 million;
- Australian sales decreased by \$11.3 million;
- Further, the translation impact of the stronger New Zealand dollar on the Group's Australian sales reduced reported revenue by \$5.3 million (3.4% adverse impact on reported operating revenue);
- The closure of the Company's rubber underlay operations in the previous financial year accounted for a reduction in sales of \$1.2 million.

(1) Before providing for restructuring costs of \$1.3 million net of tax.

(2) Before one-off items in FY 2004: Christchurch woven plant redundancies (\$2.8 million), rubber underlay closure costs (\$1.3 million), write-off of bank facility fee (\$0.3 million), write-off of secured bond issue costs (\$4.9 million) and premium paid on early redemption of secured bonds (\$4.8 million).

The combination of a number of significant issues adversely affected the Group's performance during the second six months, and resulted in the deterioration in Australian sales and margin performance. These include:

- Increasing imports and intense competition in the Australian market that put pressure on the average selling price for carpets and restricted Feltex's ability to pass on higher synthetic raw material costs to its customers through increased selling prices. The Group's average selling price decreased by 3.9% compared to the first six months of the financial year;
- The drop in Australian consumer sentiment in the third quarter which became apparent in March adversely affected consumer demand during the second six months;
- An increase in sampling costs and a build in inventory levels as the Company released new residential ranges. Sampling costs in the second half were \$1 million higher than the sampling costs in the first half, \$2.1 million higher than budget, and for the full year, sampling costs were \$1.7 million higher than the previous year.
- Higher corporate overheads, specifically legal and advisory costs.

#### COMPARISON OF ANNUAL PERFORMANCE

(Before one-off costs)

The net surplus for the year ended June 2005 was \$13 million, compared to \$25.2 million in the prior year.

|   | FY 2005<br>ACTUAL<br>\$000 | FY 2004<br>ACTUAL<br>\$000 | CHANGE<br>% |
|---|----------------------------|----------------------------|-------------|
| Operating revenue   | 300,199                    | 329,064                    | (8.8%)      |
| EBITDA<br>(Earnings before interest, taxation, depreciation and amortisation) | 33,160                     | 46,174                     | (28.2%)     |
| Net surplus   | 13,033 <sup>3</sup>        | 25,227 <sup>4</sup>        | (48.3%)     |

Compared to the prior year, sales were \$27.7 million lower, with the shortfall analysed as follows:

- New Zealand sales increased by \$5.2 million;
- Yarn sales in the USA increased by \$0.7 million;
- Australian sales decreased by \$19.0 million;
- Further, the translation impact of the stronger New Zealand dollar on the Group's Australian sales reduced reported revenue by \$11.2 million (3.4% adverse impact on reported operating revenue);
- The closure of the Company's rubber underlay operations in the previous financial year accounted for a reduction in sales of \$3.4 million.

(3) Before providing for restructuring costs of \$1.3 million net of tax.

(4) Before one-off items in FY 2004: Christchurch woven plant redundancies (\$2.8 million), rubber underlay closure costs (\$1.3 million), write-off of bank facility fee (\$0.3 million), write-off of secured bond issue costs (\$4.9 million) and premium paid on early redemption of secured bonds (\$4.8 million).

EBITDA for the year ended June 2005 decreased to \$33.2 million, compared to \$46.2 million in the prior year. The Group generated EBITDA of \$24.6 million in the first half of the financial year and \$8.6 million in the second half. The deterioration in the second half has been explained above.

Whilst the EBITDA margin in the first six months was 15.4%, in the second six months this deteriorated to 6.4%. Compared to the prior year, the Group's EBITDA margin for the year deteriorated to 11.2% from 14.3%.

## **FINANCIAL POSITION**

The company's working capital increased by \$9.1 million due to the increase in inventory by \$13 million. The reduction in inventory levels is a key focus area of the Company.

In the second half of the financial year the Company entered into a trade bill finance facility with the ANZ Bank to replace the extended trade terms provided by its major wool suppliers. This new trade bill finance facility has enabled the Company to reduce the costs associated with the procurement of wool.

As at June 2005 the Company's net debt was \$109.4 million, an increase of \$23.7 million compared to June 2004. The main components for this increase are: capital expenditure of \$14.6 million, dividends paid of \$17.9 million, the payment of non-resident withholding tax of \$5.8 million in July 2004 (IPO related), and the settlement of the acquisition of the Foxton manufacturing site of \$4.8 million in early July 2004, offset by the net cash inflow from operating activities of \$19.6 million.

## **CAPITAL EXPENDITURE**

Capital expenditure for the year was \$14.6 million. The major portion of this expenditure related to the acquisition of new tufting equipment installed and commissioned in the second half of the financial year. The earnings contribution of this investment will flow through in financial year 2006 and beyond.

## **DIVIDENDS**

An interim dividend of 6 cents per ordinary share was paid on 8 April 2005. Due to the Company's poor performance in the second half of the financial year, no final dividend will be paid.

## **HEALTH AND SAFETY**

To reinforce a positive safety culture, health and safety is regarded as a priority issue in management meetings, from Board to plant level. The number of lost time injuries reduced by a further 15.7% from 51 to 43, as result of a strong safety culture management programme. The annualised Lost Time Injury (LTI) rate for the Group is 14.2, with Australia at 13.8 compared to 14.7 for New Zealand. Despite the Company's continuing intensive efforts, two serious accidents post the end of the year have marred our recent safety performance. Any accidents are unacceptable to the Board and we will maintain our efforts to provide a safe work environment for all our employees.

As part of the Safety Recognition System a total of eleven safety awards were presented to plants for LTI free safety milestones including five bronze (three months), four silver (six months) and two gold awards (twelve months).

The Dannevirke Spinning Plant was recognised with the Safest Site Award for 2004.

The New Zealand operations have again maintained secondary level ACC accreditation, with improvement in safety practices.

Regular risk assessments are conducted to improve hazard management. Specific safety budgets have been agreed to ensure appropriate investment in capital expenditure, and repairs and maintenance to provide a safer work environment for our employees.

#### **EMPLOYEE RELATIONS AND DEVELOPMENT**

The total numbers of employees increased slightly from 1,653 to 1,679 as a result of increased spinning capacity utilisation in New Zealand. The employee split is 55% in New Zealand and 45% in Australia. Staff turnover has been consistent through the year for the group at 13%, with higher levels of 16% in New Zealand compared to 9% in Australia. A strong focus over the last year to improve absenteeism includes active management practices to reduce absenteeism, with group performance at 3.5%. New Zealand is slightly higher at 3.7% compared to Australia at 3.2%.

Robust change management processes have been adopted to facilitate restructuring of internal operations, including extensive communication and consultation initiatives to manage change effectively. This includes CEO Communication Sessions twice a year with all employees in group meetings to ensure high levels of staff awareness and understanding of company developments.

The Australian operations successfully concluded a three year Enterprise Bargaining Agreement until August 2007. In New Zealand, separate plant level collective employment agreements were concluded ranging from between twelve months to seventeen months.

The Cadetship programme in New Zealand entered its third year with a further intake of nine new cadets. A total of twenty-eight cadets are currently participating in a four-year programme to achieve a National Diploma of Textiles. This Diploma prepares manufacturing employees for technical and supervisory roles. The Feltex Leadership Development Programme continued with the completion of a second programme in Australia. The same comprehensive programme of several modules covering contemporary leadership practices to further develop supervisors and managers was also extended to New Zealand, to reinforce a consistent management approach across the business.

#### **OUTLOOK**

The operating conditions experienced in the fourth quarter of financial year 2005 of lower demand, intense competition, tighter margins and pressure from imports are expected to continue throughout financial year 2006. However the company's cost structure is being reduced to reflect these conditions.



**DES TOLAN**

Chief Financial Officer

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**DIRECTORS**

T.E.C. Saunders (Chairman)

J.M. Feeney

P.D. Hunter

P. Thomas

S.J. Magill

(C.E. Horrocks – Resigned 12 July 2005)

(J. Withers – Resigned 2 June 2005)

**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

**SHARE REGISTRY**

Computershare Investor Services Limited

Level 2, 159 Hurstmere Road

Takapuna, North Shore City, New Zealand

Telephone: (09) 488 8700

Facsimile: (09) 488 8787



**TIM SAUNDERS** B.Com, MBA

**Chairman**

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, Contact Energy 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 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.

**MICHAEL FEENEY** B.Com (Marketing)

**Non-Executive Director**

Mr Feeney is a 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.

**DAVID HUNTER**

**Non-Executive Director**

Mr Hunter retired as Chief Executive Officer 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 Chairman of the Audit and Risk Management Committee and a member of the Occupational Health and Safety Board Committee.

**PETER THOMAS** B.Com

**Executive Director (acting)**

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), 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, Remuneration Committee and the Audit and Risk Management Committee.

Pending the appointment of a new Chief Executive Officer, Mr Thomas has assumed the role of acting Executive Director.

**SAM MAGILL** B. Applied Science, (CIT)

**Director**

Mr Magill has been Chief Executive Officer of Feltex since November 2000.

## **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 in 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.

## **PETER de FONTENAY**

### **General Manager Supply Chain**

Peter joined Feltex in 2003 as General Manager Business Systems and assumed the additional responsibilities of General Manager Supply Chain in July 2005. Prior to joining Feltex, Peter was an executive consultant in the retail industry through DNA Supply Chain. Peter has also acted as the Business Services Director for Cussons Pty Limited where his responsibilities included supply chain management, quality control, information technology and New Zealand operations. Peter is a Member of the Australian Computer Society and a Fellow of the Australian Institute of Company Directors.

## **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 Sales and Marketing**

Zoran joined Shaw Industries Australia in August 1997. Zoran oversees the development and implementation of all consumer and trade marketing activity, along with ultimate responsibility for residential product design and development and residential sales. Zoran holds a Bachelor of Business from the Swinburne Institute of Technology (Hawthorn Campus).

## **WENDY McCARRISON-WILSON**

### **General Manager Commercial Sales and Marketing**

Wendy joined Feltex in 1986 and has 19 years experience in the carpet industry, 17 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.

## **JULIE SIMON**

### **General Manager Strategic Planning**

Julie joined Feltex in July 2004 as Strategic Planning Manager and was promoted to her current role in July 2005. Julie is a graduate of the University of the Witwatersrand (South Africa) with a Bachelor of Commerce and a Bachelor of Accountancy degree. Julie is a member of the South African Institute for Chartered Accountants.

## **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 (cum laude) in Industrial Relations from the Rand Afrikaans University (now University of Johannesburg). Charles is a member of the Human Resources Institute of New Zealand.

## 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, non-executive 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 normally 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.

Due to the resignation of Craig Horrocks and Joan Withers, two non-executive director positions are currently vacant. The Company is currently seeking a new Chief Executive Officer. Since August 2005, pending the appointment of a new Chief Executive Officer, Peter Thomas has assumed the role of acting Executive Director of Feltex.

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.

The Board has Board and Committee charters, a code of ethics and an evaluation process for measuring Board performance which are consistent with NZX's Corporate Governance Best Practice Code.

The Board considers that each of Feltex's non-executive Directors are independent directors for the purposes of the NZSX Listing Rules. Peter Thomas is not considered to be an independent director while he is acting in the role of Executive Director.

### Full Board Meeting attendances

*(Excluding Board committee meetings)*

| BOARD & STRATEGY MEETINGS              |    |
|--|----|
| Number of meetings                     | 15 |
| <b>DIRECTORS</b>                       |    |
| Tim Saunders                           | 14 |
| Sam Magill                             | 15 |
| Michael Feeney                         | 13 |
| Craig Horrocks – Resigned 12 July 2005 | 14 |
| David Hunter                           | 14 |
| Peter Thomas                           | 12 |
| Joan Withers – Resigned 2 June 2005    | 12 |

## 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 four 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 several times during the year, and on an ad hoc basis as required. 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, executive Directors and senior management, and recommending to the full Board the compensation of Directors. The committee met eight times during the year.

#### **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 nine times during the year.



To the Shareholders of Feltex Carpets Limited.

We have audited the financial statements on pages 20 to 45. The financial statements provide information about the past financial performance of the company and group and their financial position as at 30 June 2005. This information is stated in accordance with the accounting policies set out on pages 24 to 25.

#### **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 2005 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 and the provision of taxation services we have no relationship with, or interest in, Feltex Carpets Limited.

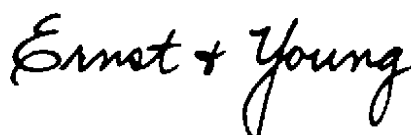
#### **Unqualified opinion**

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 20 to 45:
  - 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 2005 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 23 August 2005 and our unqualified opinion is expressed as at that date.



ERNST & YOUNG  
CHARTERED ACCOUNTANTS  
Auckland, New Zealand

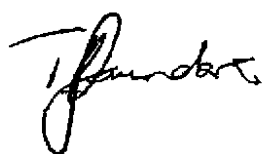
The Directors have approved the Financial Statements of  
Feltex Carpets Limited for the year ended 30 June 2005,  
set out on pages 20 to 45 of this report.

For and on behalf of the Board:



**PETER THOMAS**

**23 August 2005**



**TIM SAUNDERS**

**23 August 2005**

**FELTEX CARPETS LIMITED**  
**STATEMENT OF FINANCIAL PERFORMANCE**

**FOR THE YEAR ENDED 30 JUNE 2005**

| FOR THE YEAR ENDED 30 JUNE 2005                               |      | GROUP              | COMPANY            |                    |                    |
|---|------|--------------------|--------------------|--------------------|--------------------|
|   | NOTE | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 |
| Total operating revenue                                       | 2    | 300,199            | 329,064            | 141,940            | 155,867            |
| Operating surplus before interest and income tax              |      | 24,618             | 34,178             | 19,391             | 22,323             |
| Finance expense   | 3    | (8,716)            | (23,487)           | (4,862)            | (22,811)           |
| Operating surplus / (deficit) before income tax               | 3    | 15,902             | 10,691             | 14,529             | (488)              |
| Income tax (expense) / benefit                                | 4    | (4,152)            | 492                | (2,854)            | (110)              |
| Net surplus / (deficit) after income tax                      |      | 11,750             | 11,183             | 11,675             | (598)              |
| Net surplus / (deficit) attributable to ordinary Shareholders | 19   | 11,750             | 11,183             | 11,675             | (598)              |

*The accompanying notes form part of these financial statements*

**FELTEX CARPETS LIMITED**  
**STATEMENT OF MOVEMENTS IN EQUITY**

**FOR THE YEAR ENDED 30 JUNE 2005**

| FOR THE YEAR ENDED 30 JUNE 2005                               |      | GROUP              | COMPANY            |
|---|------|--------------------|--------------------|
|   | NOTE | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 |
|   |      | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 |
| Net surplus / (deficit) attributable to ordinary Shareholders | 19   | 11,750             | 11,183             |
| Foreign exchange loss on consolidation                        | 15   | (210)              | (1,970)            |
| Revaluation of land and buildings                             | 15   | -                  | 15,295             |
|   |      |                    |                    |
| <b>Total recognised revenues and expenses</b>                 |      | <b>11,540</b>      | <b>24,508</b>      |
| Shares issued   | 16   | -                  | 50,000             |
| Share issue expenses  | 16   | -                  | (1,750)            |
| Distributions to ordinary Shareholders                        | 19   | (17,930)           | -                  |
|   |      |                    |                    |
| <b>Movements in equity for the year</b>                       |      | <b>(6,390)</b>     | <b>72,758</b>      |
| <b>Equity at beginning of the year</b>                        |      | <b>89,410</b>      | <b>16,652</b>      |
|   |      |                    |                    |
| <b>Equity at end of the year</b>                              |      | <b>83,020</b>      | <b>89,410</b>      |

*The accompanying notes form part of these financial statements*

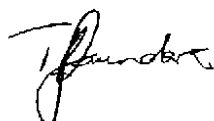
**FELTEX CARPETS LIMITED**  
**STATEMENT OF FINANCIAL POSITION**

**AS AT 30 JUNE 2005**

|   |      | GROUP              | GROUP              | COMPANY            | COMPANY            |
|---|------|--------------------|--------------------|--------------------|--------------------|
|   | NOTE | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 |
| <b>NET ASSETS</b>                                       |      |                    |                    |                    |                    |
| <b>Current Assets</b>                                   |      |                    |                    |                    |                    |
| Cash  |      | 1,514              | 1,201              | 610                | 717                |
| Trade receivables                                       | 5    | 53,771             | 58,444             | 11,028             | 10,923             |
| Other receivables and prepayments                       | 6    | 3,798              | 4,208              | 7,617              | 13,918             |
| Tax receivable  | 4    | 590                | -                  | 705                | -                  |
| Inventories   | 7    | 83,196             | 70,242             | 31,466             | 23,953             |
|   |      | <b>142,869</b>     | <b>134,095</b>     | <b>51,426</b>      | <b>49,511</b>      |
| <b>LESS:</b>  |      |                    |                    |                    |                    |
| <b>Current Liabilities</b>                              |      |                    |                    |                    |                    |
| Bank overdraft  |      | -                  | 130                | -                  | -                  |
| Accounts payable  | 8    | 65,068             | 65,707             | 34,128             | 42,437             |
| Current portion of borrowings                           | 10   | 738                | 742                | -                  | -                  |
| Provisions  | 9    | 16,495             | 15,047             | 4,036              | 4,652              |
| Provision for income tax                                | 4    | -                  | 1,407              | -                  | 3                  |
|   |      | <b>82,301</b>      | <b>83,033</b>      | <b>38,164</b>      | <b>47,092</b>      |
|   |      | <b>60,568</b>      | <b>51,062</b>      | <b>13,262</b>      | <b>2,419</b>       |
| <b>PLUS:</b>  |      |                    |                    |                    |                    |
| <b>Non-Current Assets</b>                               |      |                    |                    |                    |                    |
| Property, plant and equipment                           | 11   | 88,920             | 80,116             | 35,082             | 33,430             |
| Term receivables and other non-current assets           | 12   | -                  | -                  | -                  | 76,867             |
| Investments   | 13   | 6,153              | 5,342              | 58,052             | 66,148             |
| Goodwill  | 14   | 28,178             | 30,169             | -                  | -                  |
| Future income tax benefit                               | 4    | 10,102             | 9,862              | 1,362              | 1,761              |
|   |      | <b>133,353</b>     | <b>125,489</b>     | <b>94,496</b>      | <b>178,206</b>     |
| <b>LESS:</b>  |      |                    |                    |                    |                    |
| <b>Non-Current Liabilities</b>                          |      |                    |                    |                    |                    |
| Borrowings  | 10   | 110,158            | 85,969             | 18,000             | 84,612             |
| Provisions  | 9    | 743                | 1,172              | -                  | -                  |
|   |      | <b>110,901</b>     | <b>87,141</b>      | <b>18,000</b>      | <b>84,612</b>      |
| <b>Total Net Assets</b>                                 |      | <b>83,020</b>      | <b>89,410</b>      | <b>89,758</b>      | <b>96,013</b>      |
| <b>CAPITAL EMPLOYED</b>                                 |      |                    |                    |                    |                    |
| Share capital   | 16   | 67,755             | 67,755             | 67,755             | 67,755             |
| Reserves  | 15   | 14,264             | 14,474             | 8,539              | 8,539              |
| Retained earnings attributable to ordinary Shareholders | 19   | 1,001              | 7,181              | 13,464             | 19,719             |
| <b>Total Equity</b>                                     |      | <b>83,020</b>      | <b>89,410</b>      | <b>89,758</b>      | <b>96,013</b>      |
| <b>Total Capital Employed</b>                           |      | <b>83,020</b>      | <b>89,410</b>      | <b>89,758</b>      | <b>96,013</b>      |

*The accompanying notes form part of these financial statements*

For and on behalf of the Board, which authorised the issue of these financial statements on 23 August 2005.



**Tim Saunders**



**Peter Thomas**

# Financial Statements

## FELTEX CARPETS LIMITED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2005

|   | GROUP              |                    | COMPANY            |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                 |                    |                    |                    |                    |
| <b>Cash was provided from:</b>  |                    |                    |                    |                    |
| Receipts from customers   | 299,778            | 322,983            | 140,134            | 144,070            |
| Interest received   | 17                 | 82                 | 2,666              | 11,987             |
| Income tax refunded   | 12                 | 35                 | -                  | -                  |
| Non-resident withholding tax received from Vendor (IPO)                     | -                  | 5,823              | -                  | 5,823              |
| Government grants (Australia)   | 3,777              | 4,766              | -                  | -                  |
| Dividend received from associate company                                    | 536                | 283                | -                  | -                  |
| Dividend received from subsidiary company                                   | -                  | -                  | 5,534              | -                  |
|   | 304,120            | 333,972            | 148,334            | 161,880            |
| <b>Cash was disbursed to:</b>   |                    |                    |                    |                    |
| Payments to suppliers and employees   | (274,495)          | (294,601)          | (117,142)          | (127,173)          |
| Financing expense paid  | (8,716)            | (14,370)           | (4,862)            | (13,935)           |
| Income tax paid   | (6,161)            | -                  | (2,900)            | -                  |
| Non-resident withholding tax paid   | (5,823)            | -                  | (5,823)            | -                  |
|   | (295,195)          | (308,971)          | (130,727)          | (141,108)          |
| <b>Net cash inflow from operating activities</b>                            | <b>8,925</b>       | <b>25,001</b>      | <b>17,607</b>      | <b>20,772</b>      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                 |                    |                    |                    |                    |
| <b>Cash was provided from:</b>  |                    |                    |                    |                    |
| Proceeds from the sale of property, plant and equipment                     | 141                | 300                | 141                | 292                |
|   | 141                | 300                | 141                | 292                |
| <b>Cash was applied to:</b>   |                    |                    |                    |                    |
| Purchase of property, plant and equipment                                   | (14,622)           | (10,608)           | (4,281)            | (8,153)            |
|   | (14,622)           | (10,608)           | (4,281)            | (8,153)            |
| <b>Net cash outflow from investing activities</b>                           | <b>(14,481)</b>    | <b>(10,308)</b>    | <b>(4,140)</b>     | <b>(7,861)</b>     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                 |                    |                    |                    |                    |
| <b>Cash was provided from:</b>  |                    |                    |                    |                    |
| Proceeds from share issue   | -                  | 50,000             | -                  | 50,000             |
| Borrowings  | 24,181             | 5,000              | -                  | 5,000              |
| Proceeds from loan to related party   | -                  | -                  | 76,867             | -                  |
|   | 24,181             | 55,000             | 76,867             | 55,000             |
| <b>Cash was applied to:</b>   |                    |                    |                    |                    |
| 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)               | -                  | (49)               |
| Repayment of borrowings   | -                  | (4,694)            | (72,485)           | (2,864)            |
| Finance lease repayments  | (226)              | (762)              | -                  | -                  |
| Payment of dividends  | (17,930)           | -                  | (17,930)           | -                  |
|   | (18,156)           | (72,055)           | (90,415)           | (69,463)           |
| <b>Net cash inflow / (outflow) from financing activities</b>                | <b>6,025</b>       | <b>(17,055)</b>    | <b>(13,548)</b>    | <b>(14,463)</b>    |
| <b>Net increase / (decrease) in cash held</b>                               | <b>469</b>         | <b>(2,362)</b>     | <b>(81)</b>        | <b>(1,552)</b>     |
| Effect of exchange rate changes on cash                                     | (26)               | (16)               | (26)               | -                  |
| Opening cash balance  | 1,071              | 3,449              | 717                | 2,269              |
| <b>Closing cash balance</b>   | <b>1,514</b>       | <b>1,071</b>       | <b>610</b>         | <b>717</b>         |
| <b>Represented by:</b>  |                    |                    |                    |                    |
| Cash at bank  | 1,514              | 1,201              | 610                | 717                |
| Bank overdraft  | -                  | (130)              | -                  | -                  |
|   | 1,514              | 1,071              | 610                | 717                |

The accompanying notes form part of these financial statements

**FELTEX CARPETS LIMITED**  
**RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES**

**FOR THE YEAR ENDED 30 JUNE 2005**

|   | <b>GROUP</b>     |                  | <b>COMPANY</b>   |                  |
|---|------------------|------------------|------------------|------------------|
|   | <b>JUNE 2005</b> | <b>JUNE 2004</b> | <b>JUNE 2005</b> | <b>JUNE 2004</b> |
|   | <b>\$000</b>     | <b>\$000</b>     | <b>\$000</b>     | <b>\$000</b>     |
| <b>Net surplus / (deficit) after income tax</b>   | <b>11,750</b>    | <b>11,183</b>    | <b>11,675</b>    | <b>(598)</b>     |
| <b>Non cash items</b>   |                  |                  |                  |                  |
| Amortisation of secured bond issue expenses   | -                | 4,882            | -                | 4,882            |
| Depreciation  | 5,647            | 7,308            | 2,626            | 2,990            |
| Amortisation of goodwill  | 1,882            | 1,974            | -                | -                |
| (Increase) / decrease in future income tax benefit  | (240)            | (1,638)          | 399              | 112              |
| Decrease in investment in subsidiaries  | -                | -                | 8,096            | -                |
| (Increase) / decrease in profits of associates  | (819)            | (1,309)          | -                | -                |
| Foreign currency translation adjustment - unrealised  | 27               | (4)              | 27               | (4)              |
|   | <b>6,497</b>     | <b>11,213</b>    | <b>11,148</b>    | <b>7,980</b>     |
| <b>Movement in working capital</b>  |                  |                  |                  |                  |
| Increase / (decrease) in accounts payable   | (639)            | (1,582)          | (8,309)          | 5,925            |
| Increase / (decrease) in provisions   | 1,019            | (1,830)          | (616)            | (1,244)          |
| Increase / (decrease) in taxation payable   | (1,997)          | 1,407            | (708)            | 3                |
| (Increase) / decrease in trade receivables  | 4,673            | (5,727)          | (105)            | 232              |
| (Increase) / decrease in other receivables and prepayments  | 410              | (1,272)          | 12,174           | (2,656)          |
| (Increase) / decrease in inventories  | (12,954)         | 9,173            | (7,513)          | 6,372            |
| Foreign currency translation effects of working capital movements                                     | 249              | (2,347)          | -                | -                |
|   | <b>(9,239)</b>   | <b>(2,178)</b>   | <b>(5,077)</b>   | <b>8,632</b>     |
| <b>Items classified as an investing activity included in net surplus / (deficit) after income tax</b> |                  |                  |                  |                  |
| Net profit on disposal of property, plant and equipment   | (83)             | (17)             | (139)            | (42)             |
|   | <b>(83)</b>      | <b>(17)</b>      | <b>(139)</b>     | <b>(42)</b>      |
| <b>Items classified as a financing activity included in net surplus / (deficit) after income tax</b>  |                  |                  |                  |                  |
| Premium paid on early redemption of secured bonds (early redemption amount)                           | -                | 4,800            | -                | 4,800            |
|   | <b>-</b>         | <b>4,800</b>     | <b>-</b>         | <b>4,800</b>     |
| <b>Net cash inflow from operating activities</b>  | <b>8,925</b>     | <b>25,001</b>    | <b>17,607</b>    | <b>20,772</b>    |

*The accompanying notes form part of these financial statements*

## 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.

#### e) Property, Plant and Equipment

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

- Freehold land
- Buildings and leasehold improvements
- Plant and machinery – owned
- Plant and machinery – leased
- Furniture and fittings
- Office equipment
- Motor vehicles – owned

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:

|  |                                |
|--|--------------------------------|
| - Buildings and leasehold improvements | 10 - 50 years or term of lease |
| - Plant and machinery – owned          | 6 - 14 years                   |
| - Plant and machinery – leased         | 6 - 14 years                   |
| - Furniture and fittings               | 3 - 7 years                    |
| - Office equipment                     | 3 - 7 years                    |
| - Motor vehicles – owned               | 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.

## **1. STATEMENT OF ACCOUNTING POLICIES continued**

### **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.

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 2004.

### **n) Changes in Comparatives**

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

### **o) Financial Instruments**

Financial instruments recognised in the statement of financial position include cash balances, bank overdrafts, receivables, payables, investments and loans to others, and term borrowings. In addition, members of the Feltex Group are party to financial instruments with off-balance sheet risk to meet financing needs and to reduce exposure to fluctuations in foreign currency exchange rates. These financial instruments include guarantees of others' bank overdraft facilities, swaps, options, forward rate agreements and foreign currency forward exchange contracts.

Losses from financial guarantees are recognised by the Company when it becomes liable for the outstanding balances. Feltex Group enters into foreign currency forward exchange contracts to hedge trading transactions, including anticipated transactions, denominated in foreign currencies. Gains and losses on contracts which hedge specific short-term foreign currency denominated transactions are recognised as a component of the related transaction in the period in which the transaction is completed.

Where the hedge of an anticipated transaction is terminated early, but the anticipated transaction is still expected to occur, the gain or loss that arose prior to termination of the hedge continues to be deferred and is recognised as a component of the transaction when it is completed. If the trading transaction is no longer expected to occur, the gain or loss on the terminated hedge is recognised in the statement of financial performance immediately.

The net differential paid or received on interest swaps is recognised as a component of interest expense or interest revenue over the period of the agreement.

Premiums paid on interest rate options, and net settlements on forward rate agreements are amortised to the statement of financial performance over the life of the hedged item or the period hedged.

FOR THE YEAR ENDED 30 JUNE 2005

**2. TOTAL OPERATING REVENUE****FELTEX CARPETS LIMITED**

|   | <b>GROUP</b>               |                            | <b>COMPANY</b>             |                            |
|---|----------------------------|----------------------------|----------------------------|----------------------------|
|   | <b>JUNE 2005<br/>\$000</b> | <b>JUNE 2004<br/>\$000</b> | <b>JUNE 2005<br/>\$000</b> | <b>JUNE 2004<br/>\$000</b> |
| Sales   | 294,909                    | 322,607                    | 133,599                    | 143,838                    |
| Interest revenue                                | 17                         | 82                         | 2,666                      | 11,987                     |
| Profit on sale of property, plant and equipment | 141                        | 17                         | 141                        | 42                         |
| Government grants (Australia)                   | 3,777                      | 4,766                      | -                          | -                          |
| Share of dividend from associate company        | 536                        | 283                        | -                          | -                          |
| Share of profits from associate company         | 819                        | 1,309                      | -                          | -                          |
| Dividend from subsidiary company                | -                          | -                          | 5,534                      | -                          |
| <b>Total operating revenue</b>                  | <b>300,199</b>             | <b>329,064</b>             | <b>141,940</b>             | <b>155,867</b>             |

**3. OPERATING SURPLUS / (DEFICIT) BEFORE INCOME TAX**

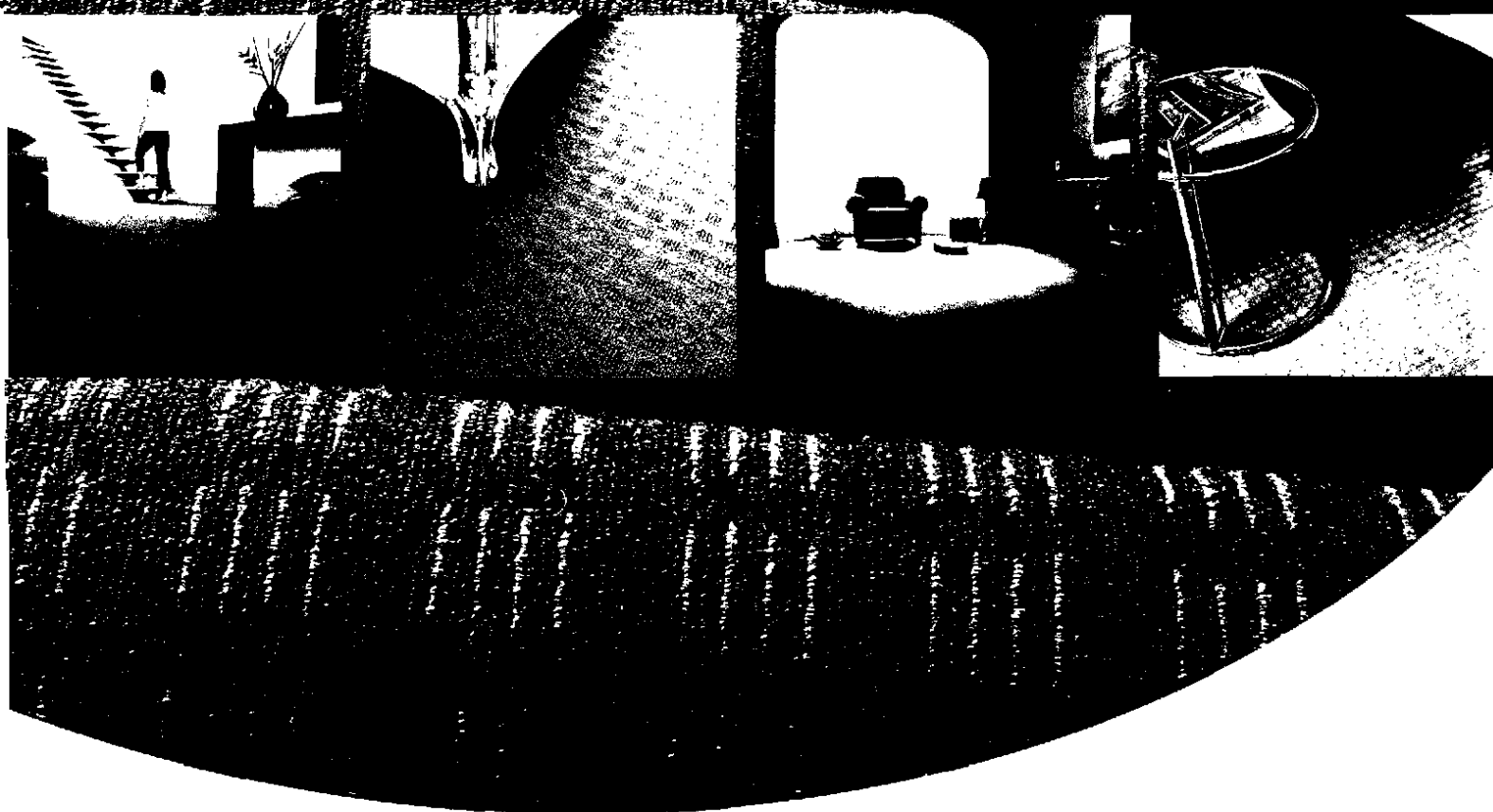
Operating surplus / (deficit) before income tax is arrived at after taking account of the following:

**FELTEX CARPETS LIMITED**

|  | <b>GROUP</b>               |                            | <b>COMPANY</b>             |                            |
|--|----------------------------|----------------------------|----------------------------|----------------------------|
|  | <b>JUNE 2005<br/>\$000</b> | <b>JUNE 2004<br/>\$000</b> | <b>JUNE 2005<br/>\$000</b> | <b>JUNE 2004<br/>\$000</b> |
| <b>Expenses</b>                          |                            |                            |                            |                            |
| Amortisation of goodwill                 | 1,882                      | 1,974                      | -                          | -                          |
| Auditor's fees - audit                   | 383                        | 290                        | 17                         | 107                        |
| - taxation                               | 392                        | 141                        | 59                         | 21                         |
| - other services                         | 84                         | 125                        | 4                          | 64                         |
| Bad and doubtful debts expense           | 205                        | 369                        | 119                        | 121                        |
| Movement in doubtful debts provision     | (522)                      | (87)                       | (129)                      | (166)                      |
| Bad debts recovered                      | (24)                       | (191)                      | (7)                        | -                          |
| Directors' fees                          | 540                        | 387                        | 540                        | 360                        |
| Donations                                | 30                         | 82                         | 29                         | 82                         |
| Rental and operating lease expenses      | 3,362                      | 3,950                      | 1,438                      | 2,241                      |
| <b>Depreciation</b>                      |                            |                            |                            |                            |
| Buildings and leasehold improvements     | 1,150                      | 1,576                      | 371                        | 175                        |
| Plant and machinery - owned              | 4,117                      | 4,532                      | 1,999                      | 1,744                      |
| Plant and machinery - leased             | 119                        | 126                        | -                          | -                          |
| Furniture and fittings                   | 59                         | 69                         | 59                         | 69                         |
| Office equipment                         | 199                        | 1,002                      | 197                        | 1,002                      |
| Motor vehicles - owned                   | 3                          | 3                          | -                          | -                          |
| <b>Total depreciation</b>                | <b>5,647</b>               | <b>7,308</b>               | <b>2,626</b>               | <b>2,990</b>               |
| <b>Financing expense</b>                 |                            |                            |                            |                            |
| Interest                                 | 8,685                      | 13,387                     | 4,862                      | 12,790                     |
| Finance charges on finance leases        | 31                         | 79                         | -                          | -                          |
| Write-off of bank facility fee           | -                          | 339                        | -                          | 339                        |
| Write-off of secured bond issue expenses | -                          | 4,882                      | -                          | 4,882                      |
| Early redemption amount (a)              | -                          | 4,800                      | -                          | 4,800                      |
| <b>Total financing expense</b>           | <b>8,716</b>               | <b>23,487</b>              | <b>4,862</b>               | <b>22,811</b>              |

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

# A year of innovation



## Insight. Expertise. Innovation.

More than ever, Feltex is focused on **building our market position** for our consumer and commercial segments using insight, expertise and innovation.

Our research tells us that in the past year we have improved brand awareness and brand preference levels for our key brands in both Australia and New Zealand.

It is **our expertise** that has enabled us to bring on stream new manufacturing technologies to produce the new carpet ranges.

It has been a **year of innovation** with new brands, new colours, new designs and new marketing tools.

  
**Feltex**  
CARPETS

*Connectmaker to the world*

# Innovation through research



## Listening to our customers

You hear the word 'innovation' a lot these days. But there's only one way for a company to truly innovate, and to stand out in a competitive marketplace: by listening.

Listening to our customers — through research, feedback and careful analysis — has the power to transform our business, in every aspect.

It means we can develop the kinds of products that work for them: in their homes, in their businesses, on their floors.

It means we can arm our sales force, and in turn, our retail and commercial partners, with the tools and the support they need to sell our products.

And it means we can better position the company to further strengthen it financially, and return profits to our shareholders.

## Benefits-based marketing

In-depth market research has allowed us to develop a clear picture of our strengths and weaknesses from the perspective of consumers, trade partners and designers who recommend our products.

The consumer market is characterised by a number of distinct segments. Our broad portfolio of brands allows us to serve all segments with a variety of products in a vast array of colours and styles.

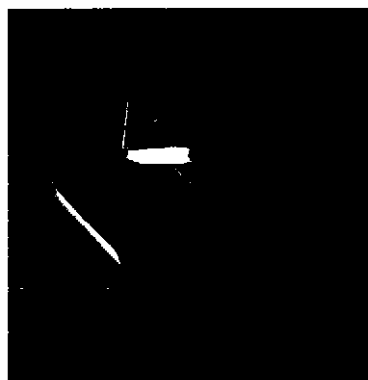
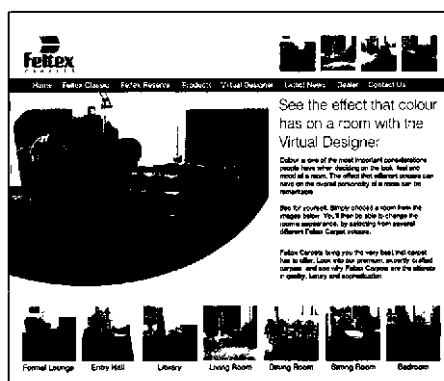
Several of our brands serve the **family** market. Research tells us families demand affordable carpet that can withstand the rugged treatment they bring to their floors, while still being warm and comfortable to live on, and attractive to look at.

For **designers and decorators**, our flagship brand Feltex Carpets delivers incredible luxury, design and construction quality. Our top-end ranges, including Feltex Classic and Feltex Reserve meet the needs, tastes and preferences of this segment like no other competitor.

All of these efforts allow us to develop the kinds of innovative solutions in product development, marketing and customer fulfilment that will see us continue to lead the market.



# Moving forward with Feltex



Feltex wool carpets have been the carpet of choice for anyone demanding sophisticated luxury and elegant design, for years.

And over the past year, Feltex has worked hard to reinforce the core qualities of its premium wool brands, Feltex Classic and Feltex Reserve.

Again, through the use of extensive market research and analysis, we have determined and refined the key selling points that encapsulate all the features and benefits of Feltex wool carpets.

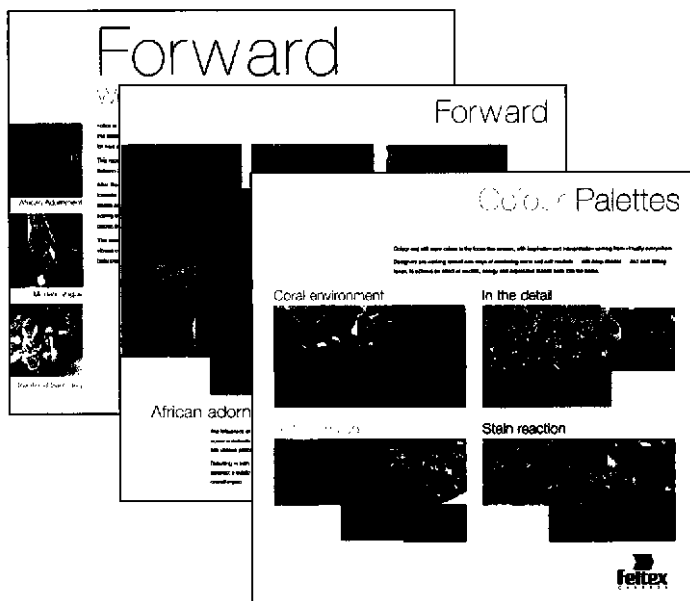
These core features and benefits include:

- Quality
- Luxury
- Design
- Texture
- Style & Colour



## Feltex Trend Forecasting

It's not just listening to our customers that allow us to develop the kinds of products they demand. We also keep abreast of worldwide design, fashion and interior trend developments, through exclusive partnerships with leading trend forecasters from around the world.

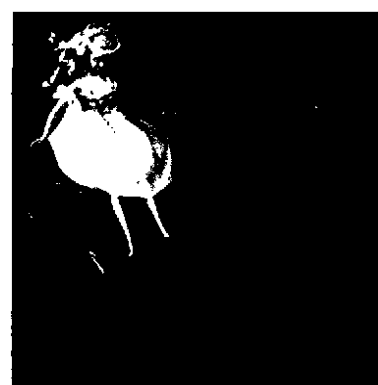
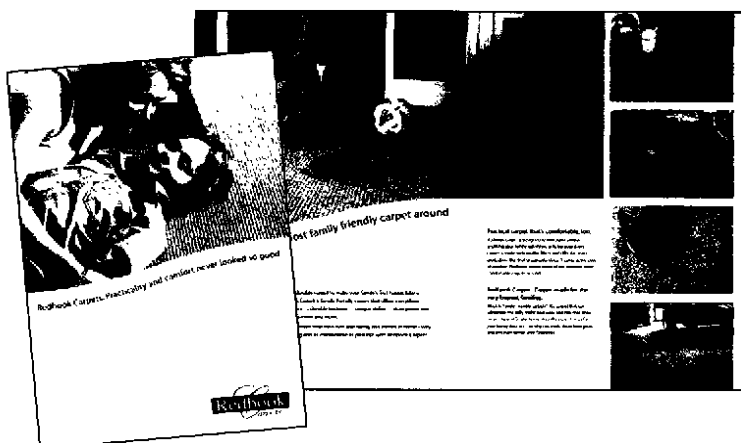


Professional designers, specifiers and media editors all appreciate the detailed trend forecasts and insights we present, and make available to them, further ensuring they continue to highlight Feltex Carpets to their customers and readers.

**Feltex**  
CARPETS

*Carpetmaker to the world*

## Innovation in synthetic product



Over the past several years, Feltex has made great advances in the development of our synthetic carpet ranges – and in how we take them to market.

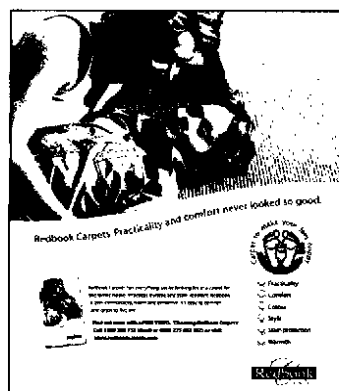
With a primary focus of positioning within Australia, these products represent high-quality, high-performance and great value for money.

The typical family consumer demands a great deal from their carpet. Research conducted with this market allows us to develop innovative product — and effective ways to communicate the benefits — that few competitors can match.

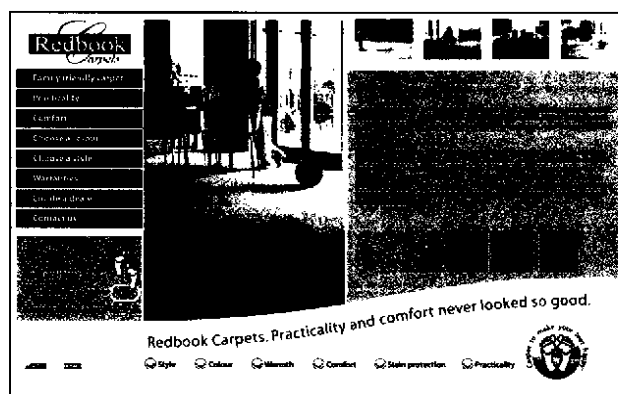
Listening to consumers in the family segment, we are able to distil their preferences into a list of features and benefits that we strive to provide with every carpet we make:

- Practicality
- Stain-protection
- Warmth
- Comfort
- Colour
- Style

These features and benefits are in turn communicated through a wide range of media and communication channels.



Most significantly, the Redbook Carpets website has been completely revamped, so that nearly every aspect and detail of Redbook carpet is readily available and beautifully presented.



[www.redbookcarpets.com](http://www.redbookcarpets.com)

Consumers can access the full range of colour, style, retailer/store locations, product attributes and other key selling information in just a few clicks.


Customers who aren't online are still exposed to Redbook through an effective mix of television, print, in store, and direct communications.

## A series of five black and white photographs showing a person in a dark, textured environment, possibly a cave or tunnel, with a bright light source visible in the distance. The person is wearing a dark jacket and a light-colored shirt. The environment is dark and textured, with a bright light source visible in the distance. The person is standing in the center of the frame, looking towards the light source. The light source is a bright, circular glow, possibly a fire or a light fixture. The person's shadow is cast on the wall behind them. The overall mood is mysterious and dramatic.

It makes good business sense for Feltex to support our retail partners' businesses, and for them to support ours. That way, everyone benefits – and that includes our customers and shareholders as well.

...no one is more knowledgeable  
about every key feature and  
benefit of Feltex carpets  
than the salesperson.

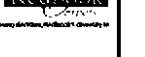
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## Redbook Happy Feet

**Colour**





Our extensive highlights the impact of colour to a man and the right play in the purchasing decision, reducing the diversity to colour, the search ability to a case clear and solution speed value.







**Style**

High intelligent look of resolution and resolution style Redbook Capabilities offer integrated into the File, Logic, and Color & Image File, which includes a lot of all-in-one integrated through a single interface.

**Smart Protection**

This extensive overview Redbook Capabilities offers the right and quality. It features a low class process which includes a process control across a range of business and sales in the business process.

**Management**

This extensive look both Redbook and Redbook Capabilities, being both and color resolution and the low taught have Redbook. Learn a lot, which is business and color to day in the face.



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# Weaving a little magic



There has been a strategic review of the woven carpet collection and its marketing to better meet the needs of specific market segments in the residential, hospitality and commercial markets.

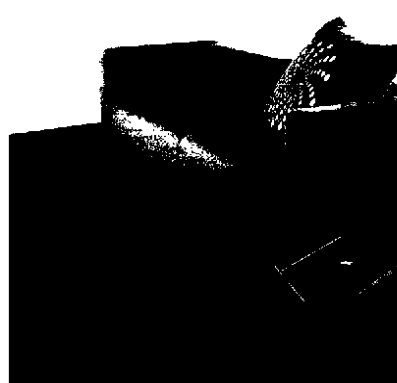
To strengthen the business that has long been producing some of the finest woven Wilton and Axminster carpets in the world we introduced the new Feltex Woven brand. The smart new image positions the collection at the ultra premium end of the market.

Leading the new product charge in the outstanding Feltex Woven collection is Wellington Park, a Wilton with a subtle, understated design that transforms contemporary homes and has been a hit with the market since its introduction.

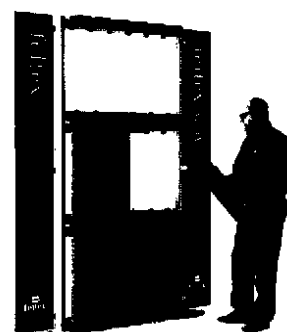
There have been important changes in the way we market and distribute woven carpet. We have more sampling, increased sales support and a revolutionary display system.

Making excellent carpet is one thing. Displaying it to best advantage at retail level is another thing again!

New Feltex Woven cPod is a revolutionary carpet display system that enables our carpets to be shown to maximum advantage in the showroom while making it easy for them to be removed for close up viewing.



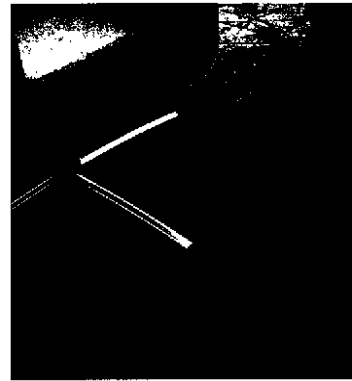
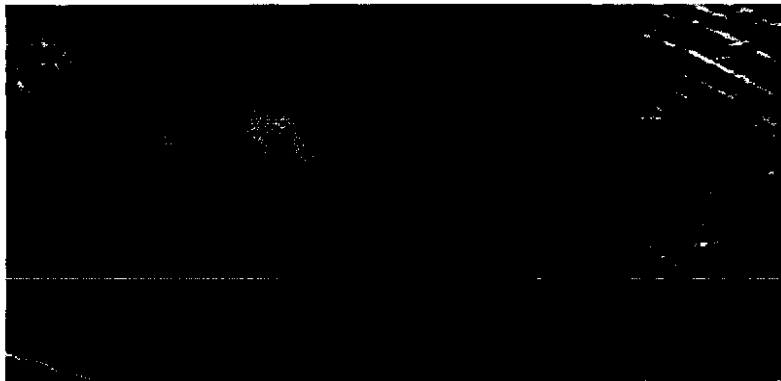
The cPod display system is an innovative, flexible response to the needs of our customers and has been warmly welcomed by carpet retailers in New Zealand and Australia alike.



Over the past year the woven carpets division has strengthened relationships with retailers. They have the knowledge and customer base to successfully market these exclusive products.

The result of this carefully managed relaunch of our woven products is a new division that is profitable and looking forward to weaving a little magic as we continue to grow in the future.

# Pure inspiration



The introduction of new technology combined with inspired design is behind the success of the Feltex Commercial brand during 2005.

The brand's credentials for innovative carpet making were recognised earlier this year at the world's largest exhibition of floor coverings, Domotex 2005 at Hannover, Germany.

Our investment in DigiTuft\* precision technology in 2004 gave Feltex Commercial a world first with the introduction of the e)scapes collection and its unique, three dimensional structure in a textured loop pile carpet.

The e)scapes collection has given a strategic edge to the Feltex Commercial brand and has continued to achieve excellent results in 2005 with the introduction of the activate range.

DigiTuft\* precision technology has also been utilised for a number of high profile projects, including the installation of a unique custom designed carpet for the Law Institute of Victoria.



The recently released Soprano, a stylish level loop pile carpet made from 100% pure New Zealand wool interspersed with metallic-look thread highlights, won the Best Construction Category in the Wool Carpet Innovations Award.

The brand's credentials for innovative carpet making were recognised earlier this year at the world's largest exhibition of floor coverings...

**Feltex**  
CARPETS

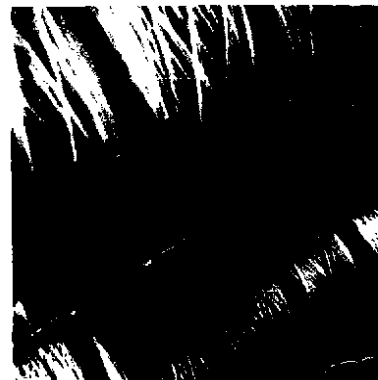
*Carpetmaker to the world*



Our connection with the world's largest carpetmaker, Shaw Carpets of the USA, was leveraged to spearhead our participation in the carpet tile market in 2005. Feltex Commercial has won wide acceptance of this addition to our portfolio and is now marketing some of their most stylish and innovative designs under the Feltex Commercial brand.

In the export market, Feltex has consolidated its approach under one brand and promoted our position as one of the largest purchasers of 100% New Zealand wool for our carpets, particularly in the USA where we expanded our distribution in 2005.

... inspired design and the use of innovative technology have produced the platform for the ongoing growth of Feltex Commercial.



We successfully promoted the brand and New Zealand on the world stage at major trade exhibitions including Domotex 2005 Shanghai, China, and Aircraft Interiors 2005 at Hamburg, Germany.

From design to manufacture to markets both here and overseas, inspired design and the use of innovative technology have produced the platform for the ongoing growth of Feltex Commercial.

**Feltex**  
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#### 4. TAXATION

| FELTEX CARPETS LIMITED  | GROUP              |                    | COMPANY            |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 |
| <b>Operating surplus / (deficit) before income tax</b>              | <b>15,902</b>      | <b>10,691</b>      | <b>14,529</b>      | <b>(488)</b>       |
| Taxation at 33 cents per dollar                                     | 5,248              | 3,528              | 4,795              | (161)              |
| <b>Adjusted for:</b>  |                    |                    |                    |                    |
| Permanent differences   | 168                | 1,253              | (1,798)            | 68                 |
| Permanent differences – Australian tax consolidation <sup>(a)</sup> | -                  | (3,674)            | -                  | -                  |
| Prior year adjustments  | (667)              | 3                  | 16                 | 3                  |
| Recognition of previously unrecognised tax losses                   | (624)              | (1,590)            | (161)              | -                  |
| Tax benefits not recognised   | -                  | 631                | -                  | 200                |
| Adjustment for effect of foreign currency translations              | (5)                | (270)              | 2                  | -                  |
| Adjustment for rates other than 33 cents                            | 32                 | (373)              | -                  | -                  |
| <b>Income tax (benefit) / expense</b>                               | <b>4,152</b>       | <b>(492)</b>       | <b>2,854</b>       | <b>110</b>         |
| <b>Current taxation</b>   |                    |                    |                    |                    |
| New Zealand   | 2,455              | -                  | 2,455              | -                  |
| Non New Zealand   | 1,984              | 1,372              | -                  | 3                  |
| <b>Total current taxation</b>                                       | <b>4,439</b>       | <b>1,372</b>       | <b>2,455</b>       | <b>3</b>           |
| <b>Deferred taxation</b>  |                    |                    |                    |                    |
| New Zealand   | 399                | -                  | 399                | -                  |
| Non New Zealand   | (686)              | (1,864)            | -                  | 107                |
| <b>Total deferred taxation</b>                                      | <b>(287)</b>       | <b>(1,864)</b>     | <b>399</b>         | <b>107</b>         |
| <b>Income tax (benefit) / expense</b>                               | <b>4,152</b>       | <b>(492)</b>       | <b>2,854</b>       | <b>110</b>         |
| <b>Deferred taxation – future income tax benefit</b>                |                    |                    |                    |                    |
| Opening balance   | 9,862              | 8,224              | 1,761              | 1,873              |
| Movement for the year   | 298                | 1,864              | (388)              | (107)              |
| Foreign currency translation effect                                 | (58)               | (226)              | (11)               | (5)                |
| <b>Closing balance</b>  | <b>10,102</b>      | <b>9,862</b>       | <b>1,362</b>       | <b>1,761</b>       |
| <b>Unrecognised tax benefits – gross</b>                            |                    |                    |                    |                    |
| New Zealand   | 2,855              | 3,308              | 2,855              | 3,308              |
| <b>Total unrecognised tax benefits</b>                              | <b>2,855</b>       | <b>3,308</b>       | <b>2,855</b>       | <b>3,308</b>       |

(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 entered 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.

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

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

## 4. TAXATION continued

### IMPUTATION CREDITS

#### FELTEX CARPETS LIMITED

|  | COMPANY            |                    |
|--|--------------------|--------------------|
|  | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 |
| Balance at beginning of the year                                 | -                  | 8,981              |
| Imputation credits cancelled – shareholder continuity provisions | -                  | (8,981)            |
| Imputation credits on provisional tax payments                   | 2,900              | -                  |
| Imputation credits attached to dividends                         | (4,139)            | -                  |
| <b>Balance at end of the year</b>                                | <b>(1,239)</b>     | <b>-</b>           |

The imputation year runs from 1 April to the following 31 March.

Due to the Company's Initial Public Offering 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 - NEW ZEALAND (Trans-Tasman imputation credits)

#### FELTEX CARPETS LIMITED

|   | COMPANY             |                     |
|---|---------------------|---------------------|
|   | JUNE 2005<br>A\$000 | JUNE 2004<br>A\$000 |
| Balance at beginning of the year                                | -                   | -                   |
| Franking credits associated with dividends received             | 2,186               | -                   |
| Franking credits associated with dividends paid to Shareholders | (2,160)             | -                   |
| <b>Balance at end of the year</b>                               | <b>26</b>           | <b>-</b>            |

### FRANKING CREDITS - AUSTRALIA

#### FELTEX CARPETS LIMITED

|   | GROUP               |                     |
|---|---------------------|---------------------|
|   | JUNE 2005<br>A\$000 | JUNE 2004<br>A\$000 |
| Balance at beginning of the year              | 7,933               | 7,933               |
| Franking credits attached to dividends        | (2,186)             | -                   |
| Franking credits associated with tax payments | 2,999               | -                   |
| <b>Balance at end of the year</b>             | <b>8,746</b>        | <b>7,933</b>        |

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 paid tax since 1 April 2003, there are franking credits available for transition into the Trans-Tasman imputation regime as at 30 June 2005.

### PROVISION FOR INCOME TAX / (TAX RECEIVABLE)

#### FELTEX CARPETS LIMITED

|   | GROUP              |                    | COMPANY            |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 |
| Balance at beginning of the year                    | 1,407              | -                  | 3                  | -                  |
| Income tax refunded                                 | 12                 | 35                 | -                  | -                  |
| Income tax paid                                     | (6,161)            | -                  | (2,900)            | -                  |
| Supplementary dividend to non-resident Shareholders | (277)              | -                  | (277)              | -                  |
| Current taxation                                    | 4,450              | 1,372              | 2,466              | 3                  |
| Foreign currency translation effect                 | (21)               | -                  | 3                  | -                  |
| <b>Balance at end of the year</b>                   | <b>(590)</b>       | <b>1,407</b>       | <b>(705)</b>       | <b>3</b>           |

## 5. TRADE RECEIVABLES

| FELTEX CARPETS LIMITED             | GROUP              |                    | COMPANY            |                    |
|------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                    | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 |
| Trade debtors - external           | 54,830             | 60,025             | 11,210             | 11,234             |
| Less: Provision for doubtful debts | (1,059)            | (1,581)            | (182)              | (311)              |
| <b>Total trade receivables</b>     | <b>53,771</b>      | <b>58,444</b>      | <b>11,028</b>      | <b>10,923</b>      |

## 6. OTHER RECEIVABLES AND PREPAYMENTS

| FELTEX CARPETS LIMITED                         | GROUP              |                    | COMPANY            |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 |
| Prepayments                                    | 3,578              | 3,692              | 1,550              | 1,746              |
| GST receivable                                 | 185                | 473                | 185                | 473                |
| Other  | 35                 | 43                 | 9                  | -                  |
| Receivables from subsidiary companies          | -                  | -                  | 5,873              | 11,699             |
| <b>Total other receivables and prepayments</b> | <b>3,798</b>       | <b>4,208</b>       | <b>7,617</b>       | <b>13,918</b>      |

## 7. INVENTORIES

| FELTEX CARPETS LIMITED | GROUP              |                    | COMPANY            |                    |
|------------------------|--------------------|--------------------|--------------------|--------------------|
|                        | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 |
| Raw materials          | 19,048             | 17,963             | 4,170              | 3,118              |
| Work in progress       | 10,268             | 10,550             | 6,407              | 6,386              |
| Finished goods         | 53,880             | 41,729             | 20,889             | 14,449             |
| <b>Total inventory</b> | <b>83,196</b>      | <b>70,242</b>      | <b>31,466</b>      | <b>23,953</b>      |

## 8. ACCOUNTS PAYABLE

| FELTEX CARPETS LIMITED                 | GROUP              |                    | COMPANY            |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 |
| Accounts payable - external            | 48,792             | 59,884             | 17,852             | 28,528             |
| Trade bills of exchange <sup>(a)</sup> | 16,276             | -                  | 16,276             | -                  |
| Amounts payable to subsidiary company  | -                  | -                  | -                  | 8,086              |
| Non-resident withholding tax payable   | -                  | 5,823              | -                  | 5,823              |
| <b>Total accounts payable</b>          | <b>65,068</b>      | <b>65,707</b>      | <b>34,128</b>      | <b>42,437</b>      |

(a) Trade bills of exchange 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 average interest rate payable was 6.56%.

FOR THE YEAR ENDED 30 JUNE 2005

**9. PROVISIONS****FELTEX CARPETS LIMITED**

|                                       | <b>GROUP</b>               |                            | <b>COMPANY</b>             |                            |
|---------------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
|                                       | <b>JUNE 2005<br/>\$000</b> | <b>JUNE 2004<br/>\$000</b> | <b>JUNE 2005<br/>\$000</b> | <b>JUNE 2004<br/>\$000</b> |
| <b>CURRENT</b>                        |                            |                            |                            |                            |
| Employee entitlements                 | 12,643                     | 11,875                     | 3,437                      | 3,612                      |
| Warranties and claims                 | 1,996                      | 3,172                      | 599                        | 1,040                      |
| Restructuring costs                   | 1,856                      | -                          | -                          | -                          |
| <b>Total provisions - Current</b>     | <b>16,495</b>              | <b>15,047</b>              | <b>4,036</b>               | <b>4,652</b>               |
| <b>NON-CURRENT</b>                    |                            |                            |                            |                            |
| Employee entitlements                 | 743                        | 1,172                      | -                          | -                          |
| <b>Total provisions - Non-current</b> | <b>743</b>                 | <b>1,172</b>               | <b>-</b>                   | <b>-</b>                   |

**RECONCILIATION OF MOVEMENT IN PROVISIONS****FELTEX CARPETS LIMITED**

|                                     | <b>GROUP</b>               |                            | <b>COMPANY</b>             |                            |
|-------------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
|                                     | <b>JUNE 2005<br/>\$000</b> | <b>JUNE 2004<br/>\$000</b> | <b>JUNE 2005<br/>\$000</b> | <b>JUNE 2004<br/>\$000</b> |
| <b>EMPLOYEE ENTITLEMENTS</b>        |                            |                            |                            |                            |
| Balance at beginning of the year    | 13,047                     | 13,789                     | 3,612                      | 4,100                      |
| Additional provision                | 5,777                      | 6,024                      | 2,669                      | 3,165                      |
| Amounts utilised during the year    | (5,222)                    | (6,376)                    | (2,844)                    | (3,653)                    |
| Foreign currency translation effect | (216)                      | (390)                      | -                          | -                          |
| <b>Balance at end of the year</b>   | <b>13,386</b>              | <b>13,047</b>              | <b>3,437</b>               | <b>3,612</b>               |
| Current                             | 12,643                     | 11,875                     | 3,437                      | 3,612                      |
| Non-current                         | 743                        | 1,172                      | -                          | -                          |
| <b>Total employee entitlements</b>  | <b>13,386</b>              | <b>13,047</b>              | <b>3,437</b>               | <b>3,612</b>               |
| <b>WARRANTIES AND CLAIMS</b>        |                            |                            |                            |                            |
| Balance at beginning of the year    | 3,172                      | 4,260                      | 1,040                      | 1,796                      |
| Additional provision                | 3,166                      | 4,127                      | 204                        | 468                        |
| Amounts utilised during the year    | (4,375)                    | (5,118)                    | (645)                      | (1,224)                    |
| Foreign currency translation effect | 33                         | (97)                       | -                          | -                          |
| <b>Balance at end of the year</b>   | <b>1,996</b>               | <b>3,172</b>               | <b>599</b>                 | <b>1,040</b>               |
| <b>RESTRUCTURING COSTS</b>          |                            |                            |                            |                            |
| Balance at beginning of the year    | -                          | -                          | -                          | -                          |
| Additional provision                | 1,832                      | -                          | -                          | -                          |
| Foreign currency translation effect | 24                         | -                          | -                          | -                          |
| <b>Balance at end of the year</b>   | <b>1,856</b>               | <b>-</b>                   | <b>-</b>                   | <b>-</b>                   |

**Restructuring**

This restructuring provision relates to changes in the executive team and specific positions which have become redundant.

The restructuring plan was approved and communicated to affected employees prior to 30 June 2005 and is expected to be completed by December 2005.

## 10. BORROWINGS

### FELTEX CARPETS LIMITED

|  | GROUP              |                    | COMPANY            |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 |
| Debentures   | -                  | 2                  | -                  | 2                  |
| Interest rate                                      | -                  | 6.49%              | -                  | 6.49%              |
| Term loan – bank                                   | 82,125             | 79,610             | -                  | 79,610             |
| Interest rate                                      | 6.60%              | 6.49%              | -                  | 6.49%              |
| Term advance - bank                                | 27,417             | 5,000              | 18,000             | 5,000              |
| Interest rate                                      | 7.26%              | 6.70%              | 7.72%              | 6.70%              |
| Term loan – other                                  | 1,109              | 1,606              | -                  | -                  |
| Interest rate                                      | 6.20%              | 6.20%              | -                  | -                  |
| Finance lease                                      | 245                | 493                | -                  | -                  |
| Interest rate                                      | 8.20%              | 8.20%              | -                  | -                  |
| <b>Total borrowings</b>                            | <b>110,896</b>     | <b>86,711</b>      | <b>18,000</b>      | <b>84,612</b>      |
| <b>Total borrowings are classified as follows:</b> |                    |                    |                    |                    |
| Non-current portion                                | 110,158            | 85,969             | 18,000             | 84,612             |
| Current portion                                    | 738                | 742                | -                  | -                  |
| <b>Total borrowings</b>                            | <b>110,896</b>     | <b>86,711</b>      | <b>18,000</b>      | <b>84,612</b>      |
| <b>Repayable as follows:</b>                       |                    |                    |                    |                    |
| Less than one year                                 | 738                | 742                | -                  | -                  |
| Between one and two years                          | 616                | 780                | -                  | -                  |
| Between two and five years                         | 109,542            | 85,189             | 18,000             | 84,612             |
| <b>Total borrowings</b>                            | <b>110,896</b>     | <b>86,711</b>      | <b>18,000</b>      | <b>84,612</b>      |

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 related 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 2005 and incorporate the effect of the relevant derivative hedge contracts. Refer to note 26 for the re-pricing analysis.

FOR THE YEAR ENDED 30 JUNE 2005

**11. PROPERTY, PLANT AND EQUIPMENT****FELTEX CARPETS LIMITED  
GROUP JUNE 2005**

|  | <b>COST<br/>\$000</b> | <b>ACCUMULATED<br/>DEPRECIATION<br/>\$000</b> | <b>BOOK<br/>VALUE<br/>\$000</b> |
|--|-----------------------|---|---------------------------------|
| Land                                       | 22,501                | -   | 22,501                          |
| Buildings and leasehold improvements       | 32,834                | (5,778)                                       | 27,056                          |
| Plant and machinery - owned                | 64,961                | (26,724)                                      | 38,237                          |
| Plant and machinery - leased               | 1,223                 | (243)   | 980                             |
| Furniture and fittings                     | 991                   | (977)   | 14                              |
| Office equipment                           | 8,294                 | (8,165)                                       | 129                             |
| Motor vehicles - owned                     | 40                    | (37)  | 3                               |
| <b>Total property, plant and equipment</b> | <b>130,844</b>        | <b>(41,924)</b>                               | <b>88,920</b>                   |

**FELTEX CARPETS LIMITED  
COMPANY JUNE 2005**

|  | <b>COST<br/>\$000</b> | <b>ACCUMULATED<br/>DEPRECIATION<br/>\$000</b> | <b>BOOK<br/>VALUE<br/>\$000</b> |
|--|-----------------------|---|---------------------------------|
| Land                                       | 7,089                 | -   | 7,089                           |
| Buildings and leasehold improvements       | 13,844                | (1,601)                                       | 12,243                          |
| Plant and machinery - owned                | 25,186                | (9,577)                                       | 15,609                          |
| Furniture and fittings                     | 988                   | (974)   | 14                              |
| Office equipment                           | 8,269                 | (8,142)                                       | 127                             |
| <b>Total property, plant and equipment</b> | <b>55,376</b>         | <b>(20,294)</b>                               | <b>35,082</b>                   |

**FELTEX CARPETS LIMITED  
GROUP JUNE 2004**

|  | <b>COST<br/>\$000</b> | <b>ACCUMULATED<br/>DEPRECIATION<br/>\$000</b> | <b>BOOK<br/>VALUE<br/>\$000</b> |
|--|-----------------------|---|---------------------------------|
| 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                               |
| <b>Total property, plant and equipment</b> | <b>116,416</b>        | <b>(36,300)</b>                               | <b>80,116</b>                   |

**FELTEX CARPETS LIMITED  
COMPANY JUNE 2004**

|  | <b>COST<br/>\$000</b> | <b>ACCUMULATED<br/>DEPRECIATION<br/>\$000</b> | <b>BOOK<br/>VALUE<br/>\$000</b> |
|--|-----------------------|---|---------------------------------|
| Land                                       | 7,085                 | -   | 7,085                           |
| Buildings and leasehold improvements       | 13,522                | (1,230)                                       | 12,292                          |
| Plant and machinery - owned                | 21,322                | (7,578)                                       | 13,744                          |
| Furniture and fittings                     | 988                   | (915)   | 73                              |
| Office equipment                           | 8,182                 | (7,946)                                       | 236                             |
| <b>Total property, plant and equipment</b> | <b>51,099</b>         | <b>(17,669)</b>                               | <b>33,430</b>                   |

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).

## 12. TERM RECEIVABLES

### FELTEX CARPETS LIMITED

|                                | GROUP              |                    | COMPANY            |                    |
|--------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 |
| Term loan - subsidiary company | -                  | -                  | -                  | 76,867             |
| <b>Total term receivables</b>  | -                  | -                  | -                  | <b>76,867</b>      |

## 13. INVESTMENTS

| NAME  | PRINCIPAL ACTIVITY                                    | % INTEREST OF<br>COMPANY<br>JUNE 2005 | % INTEREST OF<br>COMPANY<br>JUNE 2004 |
|---|---|---------------------------------------|---------------------------------------|
| <b>Investments in subsidiaries:</b>                         |   |                                       |                                       |
| Feltex USA Incorporated <sup>(a)</sup>                      | Carpet and yarn distributor                           | 100%                                  | 100%                                  |
| Feltex Australia Holdings Pty Limited <sup>(a)</sup>        | Investment holding company                            | 100%                                  | 100%                                  |
| Feltex Australia Pty Limited <sup>(b)</sup>                 | Manufacturer and distributor of carpet and yarn       | 100%                                  | 100%                                  |
| Alimere Pty Limited <sup>(c)</sup>                          | Investment in associate                               | 100%                                  | 100%                                  |
| Operations Limited <sup>(a),(e)</sup>                       | Property lessee                                       | -                                     | 100%                                  |
| Carpet Mill Products New Zealand Limited <sup>(a),(e)</sup> | Non trading   | -                                     | 100%                                  |
| Mellon Investments Pty Limited <sup>(c),(e)</sup>           | Ownership of plant, equipment and property            | -                                     | 100%                                  |
| Invicta Carpets Inc. <sup>(c),(e)</sup>                     | Non trading   | -                                     | 100%                                  |
| IGIPC Pty Limited <sup>(d),(e)</sup>                        | Ownership of plant and equipment                      | -                                     | 100%                                  |
| Shaw Tiles Australia Pty Limited <sup>(c),(e)</sup>         | Manufacturer and distributor of carpet products       | -                                     | 100%                                  |
| <b>Investments in associate:</b>                            |   |                                       |                                       |
| Carpet Call (Holdings) Pty Limited <sup>(f)</sup>           | Wholesale, retail and installation of floor coverings | 50%                                   | 50%                                   |

Balance date for all subsidiaries and associate is 30 June.

(a) directly controlled by Feltex Carpets Limited

(d) directly controlled by Mellon Investments Pty Limited

(b) directly controlled by Feltex Australia Holdings Pty Limited

(e) companies deregistered during the year

(c) directly controlled by Feltex Australia Pty Limited

(f) incorporated in Australia.

There was no effect on the Group on an aggregate basis with regard to the deregistration of the companies in relation to:

- the individual assets and liabilities of the consolidated entity
- the net surplus or deficit after tax of the consolidated entity.

### FELTEX CARPETS LIMITED

|   | GROUP              |                    | COMPANY            |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 |
| <b>ASSOCIATE</b>  |                    |                    |                    |                    |
| Share of operating surplus before income tax              | 2,064              | 2,338              | -                  | -                  |
| Share of taxation expense                                 | (684)              | (719)              | -                  | -                  |
| <b>Share of operating surplus after income tax</b>        | <b>1,380</b>       | <b>1,619</b>       | -                  | -                  |
| Goodwill amortisation                                     | (25)               | (27)               | -                  | -                  |
| <b>Share of surplus after income tax</b>                  | <b>1,355</b>       | <b>1,592</b>       | -                  | -                  |
| Dividends received from associate                         | (536)              | (283)              | -                  | -                  |
| <b>Share of retained surplus after income tax</b>         | <b>819</b>         | <b>1,309</b>       | -                  | -                  |
| Share of retained surplus at beginning of the year        | 2,552              | 1,338              | -                  | -                  |
| Foreign exchange revaluation of share of retained surplus | (17)               | (95)               | -                  | -                  |
| <b>Share of retained surplus at end of the year</b>       | <b>3,354</b>       | <b>2,552</b>       | -                  | -                  |
| Cost of investment in associate                           | 3,233              | 3,233              | -                  | -                  |
| Foreign exchange revaluation of cost                      | (434)              | (443)              | -                  | -                  |
| <b>Investment in associate</b>                            | <b>6,153</b>       | <b>5,342</b>       | -                  | -                  |
| Share of goodwill in investment in associate              | 364                | 389                | -                  | -                  |

The associate does not have any contingent assets, contingent liabilities or amounts committed for future capital expenditure as at 30 June 2005.

### SUBSIDIARIES

|                                    |   |   |               |               |
|------------------------------------|---|---|---------------|---------------|
| <b>Investments in subsidiaries</b> | - | - | <b>58,052</b> | <b>66,148</b> |
|------------------------------------|---|---|---------------|---------------|

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

## 14. GOODWILL

| FELTEX CARPETS LIMITED               | GROUP              |                    | COMPANY            |                    |
|--------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                      | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 |
| Goodwill at cost                     | 44,043             | 44,043             | -                  | -                  |
| Foreign exchange revaluation of cost | (5,517)            | (5,408)            | -                  | -                  |
| Accumulated amortisation             | (10,348)           | (8,466)            | -                  | -                  |
| <b>Total goodwill</b>                | <b>28,178</b>      | <b>30,169</b>      | <b>-</b>           | <b>-</b>           |

## 15. RESERVES

| FELTEX CARPETS LIMITED                            | GROUP              |                    | COMPANY            |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 |
| <b>Foreign currency translation reserve</b>       |                    |                    |                    |                    |
| Opening balance                                   | (821)              | 1,149              | -                  | -                  |
| Movement during the year                          | (210)              | (1,970)            | -                  | -                  |
| <b>Closing balance</b>                            | <b>(1,031)</b>     | <b>(821)</b>       | <b>-</b>           | <b>-</b>           |
| <b>Revaluation reserve</b>                        |                    |                    |                    |                    |
| Opening balance                                   | 15,295             | -                  | 8,539              | -                  |
| Revaluation of Land and Buildings during the year | -                  | 15,295             | -                  | 8,539              |
| <b>Closing balance</b>                            | <b>15,295</b>      | <b>15,295</b>      | <b>8,539</b>       | <b>8,539</b>       |
| <b>Total reserves</b>                             | <b>14,264</b>      | <b>14,474</b>      | <b>8,539</b>       | <b>8,539</b>       |

## 16. SHARE CAPITAL

| FELTEX CARPETS LIMITED                                     | GROUP              |                    | COMPANY            |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 |
| Opening balance  | 67,755             | 19,505             | 67,755             | 19,505             |
| Shares issued  | -                  | 50,000             | -                  | 50,000             |
| Share issue expenses                                       | -                  | (1,750)            | -                  | (1,750)            |
| <b>Share capital</b>                                       | <b>67,755</b>      | <b>67,755</b>      | <b>67,755</b>      | <b>67,755</b>      |
| <b>Represented by number of fully paid ordinary shares</b> |                    |                    |                    |                    |
| Opening balance  | 149,411,870        | 19,505,095         | 149,411,870        | 19,505,095         |
| Bonus issue  | -                  | 1                  | -                  | 1                  |
| Share split  | -                  | 100,494,904        | -                  | 100,494,904        |
| New shares issued <sup>(a)</sup>                           | -                  | 29,411,870         | -                  | 29,411,870         |
| <b>Total ordinary shares</b>                               | <b>149,411,870</b> | <b>149,411,870</b> | <b>149,411,870</b> | <b>149,411,870</b> |

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.

## 17. EARNINGS PER SHARE

### FELTEX CARPETS LIMITED

GROUP  
JUNE 2005      JUNE 2004

#### Basic earnings per share

The calculation of basic earnings per share is based on:

|  |               |               |
|--|---------------|---------------|
| <b>Net surplus attributable to ordinary Shareholders - \$000</b> | <b>11,750</b> | <b>11,183</b> |
| <b>Weighted average number of shares</b>                         |               |               |
| Opening balance  | 149,411,870   | 19,505,095    |
| Bonus issue  | -             | 1             |
| Share split  | -             | 100,494,904   |
| New shares issued - June 2004 (weighted)                         | -             | 2,256,253     |
| Weighted average number of shares                                | 149,411,870   | 122,256,253   |
| <b>Basic earnings per share - cents</b>                          | <b>7.86</b>   | <b>9.15</b>   |

When calculating diluted earnings per share by dividing the net profit attributable to ordinary Shareholders by the weighted average number of ordinary shares outstanding during the year (adjusted for the effects of outstanding options), the result has indicated no dilution for the Group.

## 18. DIVIDENDS

### FELTEX CARPETS LIMITED

COMPANY  
JUNE 2005      JUNE 2004  
\$000      \$000

|   |               |          |
|---|---------------|----------|
| Final dividend for financial year 2004 – non-imputed: 6 cents     | 8,965         | -        |
| Interim dividend for financial year 2005 – fully imputed: 6 cents | 8,965         | -        |
|   | <b>17,930</b> | <b>-</b> |

## 19. RETAINED EARNINGS

### FELTEX CARPETS LIMITED

GROUP  
JUNE 2005      JUNE 2004      COMPANY  
\$000      \$000      JUNE 2005      JUNE 2004  
\$000      \$000

|  |              |              |               |               |
|--|--------------|--------------|---------------|---------------|
| Opening balance                              | 7,181        | (4,002)      | 19,719        | 20,317        |
| Add: Net surplus / (deficit) for the year    | 11,750       | 11,183       | 11,675        | (598)         |
| Less: Distributions to ordinary Shareholders | (17,930)     | -            | (17,930)      | -             |
| <b>Closing balance</b>                       | <b>1,001</b> | <b>7,181</b> | <b>13,464</b> | <b>19,719</b> |

## 20. CAPITAL EXPENDITURE COMMITMENTS

### FELTEX CARPETS LIMITED

GROUP  
JUNE 2005      JUNE 2004      COMPANY  
\$000      \$000      JUNE 2005      JUNE 2004  
\$000      \$000

|                                 |       |       |       |       |
|---------------------------------|-------|-------|-------|-------|
| Capital expenditure commitments | 1,405 | 5,136 | 1,066 | 3,016 |
|---------------------------------|-------|-------|-------|-------|

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

## 21. LEASE COMMITMENTS

### FELTEX CARPETS LIMITED

|  | GROUP              |                    | COMPANY            |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 |
| <b>Lease commitments under non-cancellable operating leases:</b> |                    |                    |                    |                    |
| Less than one year   | 3,287              | 3,485              | 1,065              | 1,290              |
| Between one and two years  | 2,327              | 2,686              | 772                | 766                |
| Between two and five years                                       | 2,305              | 1,932              | 1,854              | 719                |
| Greater than five years  | 1,327              | 1,012              | 1,327              | 1,012              |
| <b>Total operating lease commitments</b>                         | <b>9,246</b>       | <b>9,115</b>       | <b>5,018</b>       | <b>3,787</b>       |
| <b>Lease commitments under finance leases:</b>                   |                    |                    |                    |                    |
| Less than one year   | 255                | 279                | -                  | -                  |
| Between one and two years  | -                  | 256                | -                  | -                  |
|  | <b>255</b>         | <b>535</b>         | <b>-</b>           | <b>-</b>           |
| Future finance lease charges                                     | (10)               | (42)               | -                  | -                  |
| <b>Net finance lease liability</b>                               | <b>245</b>         | <b>493</b>         | <b>-</b>           | <b>-</b>           |
| Current  | 245                | 248                | -                  | -                  |
| Non-current  | -                  | 245                | -                  | -                  |
| <b>Net finance lease liability</b>                               | <b>245</b>         | <b>493</b>         | <b>-</b>           | <b>-</b>           |

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 not aware of any material contingent liabilities. During the year, Feltex Carpets Limited settled a contingent liability from the prior year brought by Ceramic Funds Management Limited over the supply of carpet.

## 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 |
|--------------------------------|------------------------|
| Sale of inventory              | Associated entity      |
| Purchase and sale of inventory | Subsidiary             |
| Plant utilisation charges      | Subsidiary             |
| Interest on borrowings         | Subsidiary             |
| Management services fee        | Subsidiary             |

### SALE OF INVENTORY TO ASSOCIATE ENTITY

#### FELTEX CARPETS LIMITED

|                                    | GROUP               |                     |
|------------------------------------|---------------------|---------------------|
|                                    | JUNE 2005<br>A\$000 | JUNE 2004<br>A\$000 |
| Carpet Call (Holdings) Pty Limited | 11,205              | 14,145              |

### Transactions with former key personnel

During the year the Feltex Group paid legal fees of \$10,514 (June 2004: \$228,532) to Clendon Feeney, a firm with which Mr. C.E. Horrocks, a former Director, is associated. The fees were charged on normal terms and conditions.

## 24. FEES PAID TO GROUP AUDIT FIRM

| FELTEX CARPETS LIMITED   | GROUP              |                    | COMPANY            |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 |
| Audit  | 383                | 290                | 17                 | 107                |
| Taxation   | 392                | 141                | 59                 | 21                 |
| Other services   | 84                 | 125                | 4                  | 64                 |
| Independent accountant's report – Share offer (IPO) <sup>(a)</sup> | -                  | 1,471              | -                  | 1,471              |
| <b>Total fees paid</b>   | <b>859</b>         | <b>2,027</b>       | <b>80</b>          | <b>1,663</b>       |

(a) These fees were fully funded by CSFBAMP as part of the sale of its shareholdings in the Company through the Initial Public Offer.

## 25. GEOGRAPHICAL SEGMENT INFORMATION - GROUP

| FELTEX CARPETS LIMITED   | NEW ZEALAND           |                       | AUSTRALIA             |                       | USA                   |                       | ELIMINATIONS          |                       | TOTAL                 |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|  | JUNE<br>2005<br>\$000 | JUNE<br>2004<br>\$000 | JUNE<br>2005<br>\$000 | JUNE<br>2004<br>\$000 | JUNE<br>2005<br>\$000 | JUNE<br>2004<br>\$000 | JUNE<br>2005<br>\$000 | JUNE<br>2004<br>\$000 | JUNE<br>2005<br>\$000 | JUNE<br>2004<br>\$000 |
| Sales  | 133,599               | 143,838               | 233,481               | 261,283               | 4,875                 | 4,701                 | (77,046)              | (87,215)              | 294,909               | 322,607               |
| Interest revenue   | 2,666                 | 11,987                | 11                    | 33                    | -                     | -                     | (2,660)               | (11,938)              | 17                    | 82                    |
| Profit on sales of<br>property, plant and<br>equipment               | 141                   | 42                    | -                     | (25)                  | -                     | -                     | -                     | -                     | 141                   | 17                    |
| Government grants<br>(Australia)                                     | -                     | -                     | 3,777                 | 4,766                 | -                     | -                     | -                     | -                     | 3,777                 | 4,766                 |
| Share of dividend from<br>associate company                          | -                     | -                     | 536                   | 283                   | -                     | -                     | -                     | -                     | 536                   | 283                   |
| Share of profits from<br>associate company                           | -                     | -                     | 819                   | 1,309                 | -                     | -                     | -                     | -                     | 819                   | 1,309                 |
| Dividend from<br>subsidiary company                                  | 5,534                 | -                     | -                     | -                     | -                     | -                     | (5,534)               | -                     | -                     | -                     |
| <b>Total operating revenue</b>                                       | <b>141,940</b>        | <b>155,867</b>        | <b>238,624</b>        | <b>267,649</b>        | <b>4,875</b>          | <b>4,701</b>          | <b>(85,240)</b>       | <b>(99,153)</b>       | <b>300,199</b>        | <b>329,064</b>        |
| <b>Operating surplus<br/>before interest paid<br/>and income tax</b> | <b>19,391</b>         | <b>22,323</b>         | <b>11,687</b>         | <b>25,019</b>         | <b>1,523</b>          | <b>(1,307)</b>        | <b>(7,983)</b>        | <b>(11,857)</b>       | <b>24,618</b>         | <b>34,178</b>         |
| <b>Net surplus / (deficit)</b>                                       | <b>11,675</b>         | <b>(598)</b>          | <b>4,125</b>          | <b>12,972</b>         | <b>1,273</b>          | <b>(1,272)</b>        | <b>(5,323)</b>        | <b>81</b>             | <b>11,750</b>         | <b>11,183</b>         |
| <b>Total assets</b>  | <b>145,922</b>        | <b>215,139</b>        | <b>191,574</b>        | <b>189,051</b>        | <b>2,883</b>          | <b>2,931</b>          | <b>(64,157)</b>       | <b>(147,537)</b>      | <b>276,222</b>        | <b>259,584</b>        |

The Company operates predominantly in one industry from which its revenues are derived being the manufacture of synthetic and natural fibre carpets.

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

## 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 exposures to credit risk at balance date were:

| FELTEX CARPETS LIMITED | GROUP              |                    | COMPANY            |                    |
|------------------------|--------------------|--------------------|--------------------|--------------------|
|                        | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 |
| Bank balances          | 1,514              | 1,201              | 610                | 717                |
| Receivables            | 53,771             | 58,444             | 11,028             | 10,923             |

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:

| FELTEX CARPETS LIMITED            | GROUP              |                    | COMPANY            |                    |
|-----------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                   | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 |
| <b>Foreign exchange contracts</b> |                    |                    |                    |                    |
| On foreign currency payables (a)  | 54,630             | 21,606             | 5,615              | -                  |
| On foreign currency receivables   | 24,793             | 29,951             | 24,793             | 29,951             |

(a) No amounts were hedged in the Company in the prior year.

All third party foreign currency payables and receivables as at 30 June 2005 were hedged.

### INTEREST RATE RISK

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

| FELTEX CARPETS LIMITED | GROUP              |                    | COMPANY            |                    |
|------------------------|--------------------|--------------------|--------------------|--------------------|
|                        | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 |
| Interest rate swaps    | 65,700             | 54,905             | 65,700             | 54,905             |

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.

## 26. FINANCIAL INSTRUMENTS continued

### 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

| FELTEX CARPETS LIMITED | EFFECTIVE<br>INTEREST<br>RATE | TOTAL<br>\$000 | SIX<br>MONTHS<br>OR LESS<br>\$000 | BETWEEN<br>6-12<br>MONTHS<br>\$000 | BETWEEN<br>1-2<br>YEARS<br>\$000 | BETWEEN<br>2-5<br>YEARS<br>\$000 | GREATER<br>THAN 5<br>YEARS<br>\$000 |
|------------------------|-------------------------------|----------------|-----------------------------------|------------------------------------|----------------------------------|----------------------------------|-------------------------------------|
| <b>JUNE 2005</b>       |                               |                |                                   |                                    |                                  |                                  |                                     |
| <b>Liabilities</b>     |                               |                |                                   |                                    |                                  |                                  |                                     |
| Term loan - bank       | 6.60%                         | 82,125         | 38,325                            | 10,950                             | 10,950                           | 21,900                           | -                                   |
| Term advance - bank    | 7.26%                         | 27,417         | 27,417                            | -                                  | -                                | -                                | -                                   |
| Term loan - other      | 6.20%                         | 1,109          | -                                 | -                                  | 1,109                            | -                                | -                                   |
| Finance lease          | 8.20%                         | 245            | -                                 | 245                                | -                                | -                                | -                                   |
|                        |                               | <b>110,896</b> | <b>65,742</b>                     | <b>11,195</b>                      | <b>12,059</b>                    | <b>21,900</b>                    | -                                   |

#### JUNE 2004

|                     |       |               |               |   |               |               |   |
|---------------------|-------|---------------|---------------|---|---------------|---------------|---|
| <b>Liabilities</b>  |       |               |               |   |               |               |   |
| Term loan - bank    | 6.49% | 79,610        | 35,686        | - | 10,981        | 32,943        | - |
| Term advance - 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           | -             | - |
|                     |       | <b>86,711</b> | <b>40,688</b> | - | <b>11,474</b> | <b>34,549</b> | - |

#### COMPANY

| FELTEX CARPETS LIMITED | EFFECTIVE<br>INTEREST<br>RATE | TOTAL<br>\$000 | SIX<br>MONTHS<br>OR LESS<br>\$000 | BETWEEN<br>6-12<br>MONTHS<br>\$000 | BETWEEN<br>1-2<br>YEARS<br>\$000 | BETWEEN<br>2-5<br>YEARS<br>\$000 | GREATER<br>THAN 5<br>YEARS<br>\$000 |
|------------------------|-------------------------------|----------------|-----------------------------------|------------------------------------|----------------------------------|----------------------------------|-------------------------------------|
| <b>JUNE 2005</b>       |                               |                |                                   |                                    |                                  |                                  |                                     |
| <b>Liabilities</b>     |                               |                |                                   |                                    |                                  |                                  |                                     |
| Term advance - bank    | 7.72%                         | 18,000         | 18,000                            | -                                  | -                                | -                                | -                                   |
|                        |                               | <b>18,000</b>  | <b>18,000</b>                     | -                                  | -                                | -                                | -                                   |

#### JUNE 2004

|                     |       |               |               |   |               |               |   |
|---------------------|-------|---------------|---------------|---|---------------|---------------|---|
| <b>Liabilities</b>  |       |               |               |   |               |               |   |
| Term loan - bank    | 6.49% | 79,610        | 35,686        | - | 10,981        | 32,943        | - |
| Term advance - bank | 6.70% | 5,000         | 5,000         | - | -             | -             | - |
| Debentures          | 6.49% | 2             | 2             | - | -             | -             | - |
|                     |       | <b>84,612</b> | <b>40,688</b> | - | <b>10,981</b> | <b>32,943</b> | - |

### CREDIT FACILITIES

Feltex Carpets Group has a total bank facility as follows:

| FELTEX CARPETS LIMITED            | GROUP              |                    |
|-----------------------------------|--------------------|--------------------|
|                                   | JUNE 2005<br>\$000 | JUNE 2004<br>\$000 |
| Term loan / Money market facility | 125,925            | 126,282            |
| Trade bills of exchange           | 25,000             | -                  |

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

## 26. FINANCIAL INSTRUMENTS continued

### FAIR VALUES

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

| FELTEX CARPETS LIMITED                               | GROUP                                    |                                      | GROUP                                    |                                      |
|--|--|--------------------------------------|--|--------------------------------------|
|  | CARRYING<br>AMOUNT<br>JUNE 2005<br>\$000 | FAIR<br>AMOUNT<br>JUNE 2005<br>\$000 | CARRYING<br>AMOUNT<br>JUNE 2004<br>\$000 | FAIR<br>AMOUNT<br>JUNE 2004<br>\$000 |
| Interest rate swaps – amounts (payable) / receivable | (577)                                    | (521)                                | (1,092)                                  | 16                                   |

### 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 SWAPS

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.

## 27. PROSPECTIVE FINANCIAL INFORMATION

### FELTEX CARPETS LIMITED STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2005

|  | NOTE | ACTUAL<br>\$000 | GROUP<br>PROJECTION<br>\$000 | VARIANCE<br>\$000 |
|--|------|-----------------|------------------------------|-------------------|
| Total Operating Revenue  | (a)  | 299,380         | 348,147                      | (48,767)          |
| Operating surplus before interest, tax, depreciation and amortisation - EBITDA | (b)  | 31,328          | 51,683                       | (20,355)          |
| Depreciation   | (c)  | (5,647)         | (8,427)                      | 2,780             |
| Operating surplus before interest, tax and amortisation - EBITA                |      | 25,681          | 43,256                       | (17,575)          |
| Amortisation of goodwill   |      | (1,882)         | (1,984)                      | 102               |
| Operating surplus before interest and income tax                               |      | 23,799          | 41,272                       | (17,473)          |
| Finance expense  | (d)  | (8,716)         | (7,526)                      | (1,190)           |
| Operating surplus before income tax  |      | 15,083          | 33,746                       | (18,663)          |
| Income tax expense   | (e)  | (4,152)         | (11,335)                     | 7,183             |
| Net surplus after income tax   |      | 10,931          | 22,411                       | (11,480)          |
| Equity accounted earnings of associate company                                 | (f)  | 819             | 1,478                        | (659)             |
| Net surplus attributable to ordinary Shareholders                              | (g)  | 11,750          | 23,889                       | (12,139)          |

## 27. PROSPECTIVE FINANCIAL INFORMATION continued

### FELTEX CARPETS LIMITED RECONCILIATION OF TOTAL OPERATING REVENUE FOR THE YEAR ENDED 30 JUNE 2005

|  | ACTUAL<br>\$000 | GROUP<br>PROJECTION<br>\$000 | VARIANCE<br>\$000 |
|--|-----------------|------------------------------|-------------------|
| <b>As shown in Prospective Financial Information</b> |                 |                              |                   |
| Total operating revenue                              | 299,380         | 348,147                      | (48,767)          |
| Equity accounted earnings of associate company       | 819             | 1,478                        | (659)             |
| <b>Total operating revenue <sup>(1)</sup></b>        | <b>300,199</b>  | <b>349,625</b>               | <b>(49,426)</b>   |

(1) Reconciliation of Actual Group result to note 2.

### FELTEX CARPETS LIMITED STATEMENT OF MOVEMENTS IN EQUITY FOR THE YEAR ENDED 30 JUNE 2005

|   | NOTE | ACTUAL<br>\$000 | GROUP<br>PROJECTION<br>\$000 | VARIANCE<br>\$000 |
|---|------|-----------------|------------------------------|-------------------|
| Net surplus attributable to ordinary Shareholders | (h)  | 11,750          | 23,889                       | (12,139)          |
| Foreign exchange loss on consolidation            |      | (210)           | -                            | (210)             |
| <b>Total recognised revenues and expenses</b>     |      | <b>11,540</b>   | <b>23,889</b>                | <b>(12,349)</b>   |
| Distributions to ordinary Shareholders            | (i)  | (17,930)        | (16,806)                     | (1,124)           |
| <b>Movements in equity for the year</b>           |      | <b>(6,390)</b>  | <b>7,083</b>                 | <b>(13,473)</b>   |
| <b>Equity at beginning of the year</b>            |      | <b>89,410</b>   | <b>90,250</b>                | <b>(840)</b>      |
| <b>Equity at end of the year</b>                  | (j)  | <b>83,020</b>   | <b>97,333</b>                | <b>(14,313)</b>   |

**27. PROSPECTIVE FINANCIAL INFORMATION continued****FELTEX CARPETS LIMITED  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2005**

|  |      | ACTUAL<br>\$000  | GROUP<br>PROJECTION<br>\$000 | VARIANCE<br>\$000 |
|--|------|------------------|------------------------------|-------------------|
|  | NOTE |                  |                              |                   |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                  |      |                  |                              |                   |
| <b>Cash was provided from:</b>                               |      |                  |                              |                   |
| Receipts from customers                                      |      | 299,778          | 347,035                      | (47,257)          |
| Interest received  |      | 17               | -                            | 17                |
| Income tax refunded  |      | 12               | -                            | 12                |
| Government grants (Australia)                                |      | 3,777            | 1,850                        | 1,927             |
| Dividend received from associate company                     |      | 536              | 300                          | 236               |
|  |      | <b>304,120</b>   | <b>349,185</b>               | <b>(45,065)</b>   |
| <b>Cash was disbursed to:</b>                                |      |                  |                              |                   |
| Payments to suppliers and employees                          |      | (274,495)        | (298,753)                    | 24,258            |
| Financing expense paid                                       |      | (8,716)          | (7,530)                      | (1,186)           |
| Income tax paid  |      | (6,161)          | (10,676)                     | 4,515             |
| Non-resident withholding tax paid                            |      | (5,823)          | -                            | (5,823)           |
|  |      | <b>(295,195)</b> | <b>(316,959)</b>             | <b>21,764</b>     |
| <b>Net cash inflow from operating activities</b>             | (k)  | <b>8,925</b>     | <b>32,226</b>                | <b>(23,301)</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                  |      |                  |                              |                   |
| <b>Cash was provided from:</b>                               |      |                  |                              |                   |
| Proceeds from the sale of property, plant and equipment      |      | 141              | -                            | 141               |
|  |      | <b>141</b>       | <b>-</b>                     | <b>141</b>        |
| <b>Cash was applied to:</b>                                  |      |                  |                              |                   |
| Purchase of property, plant and equipment                    | (l)  | (14,622)         | (8,500)                      | (6,122)           |
|  |      | <b>(14,622)</b>  | <b>(8,500)</b>               | <b>(6,122)</b>    |
| <b>Net cash outflow from investing activities</b>            |      | <b>(14,481)</b>  | <b>(8,500)</b>               | <b>(5,981)</b>    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                  |      |                  |                              |                   |
| <b>Cash was provided from:</b>                               |      |                  |                              |                   |
| Borrowings   | (m)  | 24,181           | -                            | 24,181            |
|  |      | <b>24,181</b>    | <b>-</b>                     | <b>24,181</b>     |
| <b>Cash was applied to:</b>                                  |      |                  |                              |                   |
| Repayment of borrowings                                      | (m)  | -                | (6,920)                      | 6,920             |
| Finance lease repayments                                     |      | (226)            | -                            | (226)             |
| Payment of dividends   |      | (17,930)         | (16,806)                     | (1,124)           |
|  |      | <b>(18,156)</b>  | <b>(23,726)</b>              | <b>5,570</b>      |
| <b>Net cash inflow / (outflow) from financing activities</b> |      | <b>6,025</b>     | <b>(23,726)</b>              | <b>29,751</b>     |
| <b>Net increase in cash held</b>                             |      | <b>469</b>       | <b>-</b>                     | <b>469</b>        |
| Effect of exchange rate changes on cash                      |      | (26)             | -                            | (26)              |
| Opening cash balance   |      | 1,071            | 1,000                        | 71                |
| <b>Closing cash balance</b>                                  |      | <b>1,514</b>     | <b>1,000</b>                 | <b>514</b>        |
| <b>Represented by:</b>                                       |      |                  |                              |                   |
| Cash at bank   |      | 1,514            | 1,000                        | 514               |
|  |      | <b>1,514</b>     | <b>1,000</b>                 | <b>514</b>        |

## 27. PROSPECTIVE FINANCIAL INFORMATION continued

### EXPLANATIONS FOR VARIANCES TO PROJECTION

#### STATEMENT OF FINANCIAL PERFORMANCE

##### (a) Total Operating Revenue

Total operating revenue was lower than projected by \$48.8 million due to the following:

- Lower than projected sales of \$51.1 million attributable to:
  - Increasing imports, intense competition and lower overall demand in Australia adversely affected sales by approximately \$35.8 million. This shortfall in sales was mainly in the lower price segments of the business;
  - The translation impact of the stronger New Zealand dollar on the Group's Australian sales adversely affected reported revenue by \$12.1 million. The projection assumed an exchange rate of 0.8772 A\$ per NZ\$ whilst the actual average exchange rate for the 2005 financial year was 0.9256 A\$ per NZ\$;
  - Sales in New Zealand were slightly below the projected sales by \$2.6 million; and
  - Yarn sales in the USA were adversely affected by the translation impact of the stronger New Zealand dollar.
- Offset by higher Australian Strategic Investment Program (SIP) grants of \$1.9 million.

##### (b) EBITDA

EBITDA was lower than the projection by \$20.4 million mainly due to:

- The loss of the margin contribution from the lower sales explained above;
- Lower margins due to the increased competition in Australia and higher synthetic raw material costs that the Company was not able to fully pass through to its customers through increased selling prices;
- The higher cost, due to the stronger New Zealand dollar, of New Zealand produced carpet transferred to and on sold in Australia. This adversely affected EBITDA by approximately \$1.6 million in the second six months of the financial year;
- Higher actual sampling costs above the projected sampling costs by \$1.3 million;
- Higher corporate overheads, specifically legal and advisory costs; and
- Restructuring costs of \$1.8 million in relation to the departure of senior executives.

##### (c) Depreciation

Depreciation was lower than projected by \$2.8 million mainly due to:

- The timing of capital expenditure that was incurred later than projected; and
- Lower depreciation on office equipment, business software and plant and equipment due to certain items that have now been fully depreciated.

##### (d) Finance Expense

Financing expense exceeded the projection by \$1.2 million mainly due to the higher working capital levels, increased capital expenditure (refer note (l)) and higher interest rates.

##### (e) Income Tax Expense

The income tax expense was \$7.2 million below the projected tax expense due to the lower actual earnings for the year and accounting for previously unrecognised timing differences, resulting in a lower effective tax rate.

##### (f) Equity Accounted Earnings

The equity earnings from the Company's associate, Carpet Call (Holdings) Pty Limited, was \$0.7 million below the projection due to the lower earnings of Carpet Call (Holdings) Pty Limited.

##### (g) Net Surplus Attributable to Ordinary Shareholders

The net surplus attributable to ordinary Shareholders was \$12.1 million below the projection. The key reasons are as follows:

- The shortfall in margin contribution from the lower sales explained in (a) above;
- Lower margins due to the intense competition in Australia;
- Higher raw material costs that the Company was not able to fully pass through to its customers through increased selling prices;
- The higher cost, due to the stronger New Zealand dollar, of New Zealand produced carpet transferred to and on sold in Australia;
- Higher overheads, specifically sampling and legal and advisory costs;
- Restructuring costs of \$1.3 million (after tax);
- Higher interest costs;
- Offset by lower depreciation and taxation.

#### STATEMENT OF MOVEMENTS IN EQUITY

##### (h) Net Surplus Attributable to Ordinary Shareholders

Refer explanation (g) above.

##### (i) Distribution to Ordinary Shareholders

The distribution to ordinary Shareholders was higher than the projection due to the increased interim dividend; 6 cents as opposed to 5.2 cents per ordinary share.

**27. PROSPECTIVE FINANCIAL INFORMATION continued****(j) Equity at End of the Year**

The equity at the end of the year was \$14.3 million below the projection due to:

- The net surplus attributable to ordinary Shareholders was \$12.1 million below the projected amount – refer explanation (g) on previous page;
- The increased interim dividend; and
- The opening equity at the beginning of the year was \$0.8 million below the projected amount, as explained in last year's annual report.

**STATEMENT OF CASH FLOWS****(k) Net Cash Inflow from Operating Activities**

The net cash inflow from operating activities was lower than the projected amount by \$23.3 million mainly due to:

- The timing of the payment of the non-resident withholding tax of \$5.8 million. In the IPO projected cash flow, this was projected to be paid in June 2004 but the actual payment was made in July 2004, i.e. the current financial year;
- The shortfall in EBITDA of \$20.4 million explained in (b) on previous page;
- The payment of higher financing expenses of \$1.2 million explained in (d) on previous page;
- Offset by the reduced income tax paid of \$4.5 million.

**(l) Capital Expenditure**

Capital expenditure was \$6.1 million higher than the projected due to the acquisition of new tufting equipment that was not anticipated in the projection. Expenditure on the new tufting equipment was \$6.7 million.

**(m) Borrowings**

Borrowings were higher than projected by \$22.2 million due to the following:

- The net cash inflow from operating activities was \$23.3 million less than projected – refer explanation (k) above;
- Capital expenditure was above the projected amount by \$6.1 million – refer explanation (l) above;
- The interim dividend paid in April 2005 was \$1.1 million higher than projected – refer explanation (i) on previous page;
- Offset by the opening position of borrowings at the beginning of the financial year that was \$8.5 million less than projected.

**28. EVENTS AFTER THE BALANCE SHEET DATE**

Prior to year-end, Feltex Carpets Limited announced the restructure of the executive team and indicated specific positions which would become redundant as part of that restructure. The cost of this restructure of \$1,832,000 has been included in the 30 June 2005 financial result.

Subsequent to year-end, there has been a further announcement that the Company would undertake a second round of restructuring which would result in forty-two positions being made redundant. It is expected that the cost of this restructure will be \$2,248,000. As this decision was made subsequent to year-end, this cost has not been provided for in the 30 June 2005 financial statements.

**29. IMPACT OF ADOPTING NEW ZEALAND EQUIVALENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS**

Feltex Carpets Limited is in the process of transitioning its accounting policies and financial reporting from current New Zealand Financial Reporting Standards and Statements of Standard Accounting Practice (NZ FRS) to New Zealand equivalents of International Financial Reporting Standards (IFRS) which will be applicable for the financial year ending 30 June 2006. In 2004, the Company allocated internal resources and engaged expert consultants to conduct impact assessments to identify key areas that will be impacted by the transition to IFRS. As a result, Feltex established project teams to address each of the areas in order of priority. An IFRS steering committee was established to oversee the progress of each of the project teams and make necessary decisions. Priority was given to the preparation of an opening balance sheet in accordance with IFRS as at 1 July 2004, Feltex's transition date to IFRS. This will form the basis of accounting for IFRS in the future, and is required when Feltex prepares its first fully IFRS compliant financial report for the year ending 30 June 2006.

Set out below are the key areas where accounting policies are expected to change on adoption of IFRS and our best estimate of the quantitative impact of the changes on total equity as at the date of transition and 30 June 2005.

The figures disclosed are management's best estimates of the quantitative impact of the changes as at the date of preparing the 30 June 2005 financial report. The actual effects of transition to IFRS may differ from the estimates disclosed due to (a) ongoing work being undertaken by the IFRS project teams; (b) potential amendments to IFRSs and Interpretations thereof being issued by the standard-setters and IFRIC; and (c) emerging accepted practice in the interpretation and application of IFRS and Interpretations.

**a) Set out below are the key areas where accounting policies will change**

- Under NZ IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, accounting for government grants requires adopting the matching principle whereby grant revenue is to be recognised as income on a systematic basis over the period necessary to match such revenue with the related costs which they are intended to compensate. In the case of a government grant for the acquisition or construction of a long-term asset, NZ IAS 20 requires the amount of the grant to be carried forward and to be presented as Deferred Income. This must be recognised on a systematic basis over the life of the asset. The impact of adopting IFRS for the deferral of revenue from government grants is recognition of deferred income as at 30 June 2005 of approximately \$3.5 million (2004: \$3.0 million), which results in a reduction to Equity, net of tax, of approximately \$0.4 million (2004: \$2.0 million).
- Under NZ IAS 39 *Financial Instruments: Recognition and Measurement*, doubtful debts provision will be calculated based on an 'incurred loss' model rather than the less stringent 'expected loss' model allowed under NZ FRS. In anticipation of transition to IFRS, during the current financial year Feltex proceeded to account for the doubtful debts provision based on the 'incurred

## 29. IMPACT OF ADOPTING NEW ZEALAND EQUIVALENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS *continued*

loss' model. Therefore there is no additional financial effect as at 30 June 2005 (2004: reduced provision of approximately \$0.6 million). The impact, net of tax, on Equity as at 30 June 2004 is an increase of approximately \$0.4 million.

- (iii) NZ IAS 12 *Income Taxes* requires Feltex to use a balance sheet liability method, rather than the current income statement method. The balance sheet approach recognises deferred tax balances on all temporary differences between the accounting carrying value of an asset or liability and its tax base. An adjustment will need to be booked to reflect deferred tax on these items that were not subject to deferred tax under the partial method under NZ FRS. A reliable estimate at the date of this report has not been quantified.
- (iv) Under NZ IAS 19 *Employee Benefits*, on transition Feltex will recognise the liability for accrued sick leave which is eligible to be paid out to employees under an Australian Enterprise Bargaining Agreement (Textile Workers). These costs are not recognised under NZ FRS. The impact of adopting IFRS for the provision of sick leave for Feltex is an additional liability as at 30 June 2005 of approximately \$0.2 million (2004: \$0.1 million). The impact, net of tax, on Equity is approximately \$0.1 million (2004: \$0.1 million).
- (v) Under NZ IAS 19 *Employee Benefits*, on transition Feltex will recognise the present legal obligation arising under any defined benefit plans. Feltex predominantly has defined contribution superannuation plans that require a known contribution to be made, but also has a small number of employees on a defined benefit superannuation plan. Under IFRS it is a requirement to recognise the full constructive obligation, being the amount by which the accumulated benefit obligation to all members exceeded the fair value of the assets relating to those members. The full constructive obligation is determined by an actuarial assessment. The impact of adopting IFRS for Feltex is an additional gross liability as at 30 June 2005 of approximately \$0.05 million (2004: \$0.1 million). The impact, net of tax, on Equity is to increase Equity by approximately \$0.02 million (2004: decrease Equity by \$0.05 million).
- (vi) Under NZ IAS 21 *The Effects of Changes in Foreign Exchange Rates* and NZ IFRS 1 *First Time Adoption of New Zealand Equivalents to International Reporting Standards*, on transition to IFRS Feltex are offered an exemption whereby cumulative translation differences for all foreign subsidiaries are deemed to be zero, with an adjusting entry to retained earnings. Feltex will elect to take advantage of this exemption and accordingly as at 30 June 2004, the balance of \$0.8 million in the foreign currency translation reserve account will be reversed and applied against retained earnings. Accordingly there is no impact on Equity.
- (vii) Under NZ IFRS 3 *Business Combinations* goodwill is not permitted to be amortised but rather is subject to impairment testing on an annual basis or upon the occurrence of triggers which may indicate a potential impairment if the assessment of fair value of the goodwill is lower than its current value. The impairment of goodwill is assessed using a present value of expected net cash flows approach and is completed at the lowest cash generating unit. Feltex has reviewed the fair values of goodwill at the lowest cash generating unit and no impairment has been indicated. Currently under NZ FRS, Feltex amortises goodwill over its useful life but not exceeding 20 years. Feltex will not elect to apply NZ IFRS 3 retrospectively and hence, prior year amortisation will not be written-back as at the date of transition. The impact of adopting IFRS as at 30 June 2005 is to increase assets by approximately \$1.9 million (2004: Nil). The impact on Equity is an increase of approximately \$1.9 million (2004: Nil).
- (viii) Under NZ IAS 36 *Impairment of Assets*, the recoverable amount of an asset is determined as the higher of its net selling price and value in use. Feltex's current accounting policy is to determine the recoverable amount of an asset on the basis of discounted cash flows. Feltex's assets including goodwill were tested for impairment on transition and each subsequent reporting date as part of the cash generating unit to which they belong. Should impairment losses be indicated from this testing, these losses will be recognised under IFRS.
- (ix) Under NZ IAS 16 *Property, Plant and Equipment*, on transition Feltex will be required to include as part of the cost of its leasehold improvements, an estimate of the costs to remove those improvements at the end of the lease term and the potential restoration costs of the property where such an obligation exists to the lessor. These costs are not currently recognised under NZ FRS. A corresponding liability will be recognised under IFRS in accordance with NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Feltex will use the services of a valuer to provide an estimate of these costs which at the date of this report has not been quantified.
- (x) Under NZ IFRS 2 *Share Based Payments*, on transition Feltex will recognise the fair value of options granted to employees as remuneration as an expense on a pro-rata basis over the vesting period in the income statement with a corresponding adjustment to equity. Share-based payment costs are not recognised under NZ FRS. A reliable estimate at the date of this report has not been quantified.
- (xi) Under NZ IAS 39 *Financial Instruments: Recognition and Measurement*, any gains and losses on derivative instruments that were designated as hedges of specific items or economic exposures were deferred and recognised on the same basis as the underlying hedge item. The fair value of derivative instruments were previously disclosed in the notes to the financial statements. Under NZ IAS 39 there is a requirement to recognise all derivative instruments at fair value. If the instrument does not meet the requirements for hedge accounting then any mark to market revaluations will be recognised in the Income Statement. If a derivative instrument does qualify for cash flow hedge accounting then any mark to market revaluations will be recognised directly within equity and transferred to the Income Statement at the time the hedged item is processed to the Income Statement. Feltex currently complies with the specific requirements for effective hedge accounting under NZ IAS 39 and therefore there will be no financial impact.
- (xii) Feltex will apply the exemption provided in NZ IFRS 1 *First Time Adoption of New Zealand Equivalents to International Financial Reporting Standards* which permits entities not to apply the requirements of NZ IAS 32 *Financial Instruments: Presentation and Disclosure* and NZ IAS 39 *Financial Instruments: Recognition and Measurement* for the financial year ended 30 June 2005. The standards will be applied from 1 July 2005.

### b) Restated IFRS Statement of Cash Flows for the year ended 30 June 2005

No material impacts are expected to the cash flows presented under NZ FRS on adoption of IFRS.

## STOCK EXCHANGE LISTING

The Company's ordinary shares are listed on the New Zealand Stock Exchange.

## DISTRIBUTION OF SECURITY HOLDERS AND SECURITY HOLDINGS

AS AT 31 JULY 2005

| SIZE OF HOLDING                | SECURITY HOLDERS |                | SECURITIES         |                |
|--------------------------------|------------------|----------------|--------------------|----------------|
|                                | NUMBER           | %              | NUMBER             | %              |
| 1 - 999                        | 181              | 1.78%          | 94,934             | 0.06%          |
| 1,000 - 4,999                  | 4,472            | 43.99%         | 11,692,585         | 7.83%          |
| 5,000 - 9,999                  | 2,621            | 25.78%         | 17,089,024         | 11.44%         |
| 10,000 - 49,999                | 2,575            | 25.33%         | 45,707,913         | 30.59%         |
| 50,000 - 99,999                | 187              | 1.84%          | 11,650,543         | 7.80%          |
| 100,000 -                      | 130              | 1.28%          | 63,176,871         | 42.28%         |
|                                | <b>10,166</b>    | <b>100.00%</b> | <b>149,411,870</b> | <b>100.00%</b> |
| <b>GEOGRAPHIC DISTRIBUTION</b> |                  |                |                    |                |
| New Zealand                    | 10,058           | 98.95%         | 137,789,432        | 92.21%         |
| Australia                      | 50               | 0.50%          | 10,540,481         | 7.05%          |
| Rest of the world              | 58               | 0.55%          | 1,081,957          | 0.74%          |
|                                | <b>10,166</b>    | <b>100.00%</b> | <b>149,411,870</b> | <b>100.00%</b> |

## 20 LARGEST REGISTERED HOLDERS OF QUOTED EQUITY SECURITIES

AS AT 31 JULY 2005

|   | NUMBER            | %             |
|---|-------------------|---------------|
| Godfrey Hirst Australia Pty Limited                 | 8,715,558         | 5.83%         |
| Leveraged Equities Finance Limited                  | 5,532,285         | 3.70%         |
| Forbar Custodians Limited                           | 3,869,474         | 2.59%         |
| Forbar Custodians Limited                           | 3,662,026         | 2.45%         |
| First NZ Capital Custodians Limited                 | 3,291,634         | 2.20%         |
| Citibank Nominees (New Zealand) Limited - A/C NZCSD | 2,969,714         | 1.99%         |
| Forbar Custodians Limited                           | 2,484,191         | 1.66%         |
| Forbar Custodians Limited                           | 2,368,277         | 1.59%         |
| First NZ Capital Custodians Limited                 | 2,040,708         | 1.37%         |
| Philip Robert Briggs and Pamela Annette Briggs      | 1,073,716         | 0.72%         |
| Hemat Lal Patel                                     | 1,000,000         | 0.67%         |
| John Zdenko Kokic                                   | 922,836           | 0.62%         |
| Jarden Custodians Limited                           | 850,000           | 0.57%         |
| Doyle Securities Limited                            | 750,000           | 0.50%         |
| Custodial Services Limited                          | 730,158           | 0.49%         |
| Market Force Limited                                | 708,354           | 0.47%         |
| National Nominees New Zealand Limited - A/C NZCSD   | 567,500           | 0.38%         |
| Custodial Services Limited                          | 554,638           | 0.37%         |
| Forbar Custodians Limited                           | 543,168           | 0.36%         |
| AMP Superannuation Tracker Fund - A/C NZCSD         | 532,000           | 0.36%         |
|   | <b>43,166,237</b> | <b>28.89%</b> |

## SUBSTANTIAL SECURITY HOLDERS

AS AT 31 JULY 2005

VOTING SECURITIES  
NUMBER %

Godfrey Hirst Australia Pty Limited

8,715,558

5.83%

As at 31 July 2005 the total number of issued voting securities of Feltex Carpets Limited was 149,411,870.

## DIRECTORS' SECURITY HOLDINGS

Equity securities in which Directors have a relevant interest.

AS AT 31 JULY 2005

|                | NUMBER OF<br>SHARES    | NUMBER OF<br>OPTIONS     | TOTAL<br>NUMBER OF<br>EQUITY<br>SECURITIES |
|----------------|------------------------|--------------------------|--|
| Michael Feeney | 221,481                | -                        | 221,481                                    |
| David Hunter   | 258,441                | -                        | 258,441                                    |
| Samuel Magill  | 2,660,895              | 1,812,500 <sup>(a)</sup> | 4,473,395                                  |
| Tim Saunders   | 500,000                | -                        | 500,000                                    |
| Peter Thomas   | 569,440 <sup>(b)</sup> | -                        | 569,440                                    |
| <b>Total</b>   | <b>4,210,257</b>       | <b>1,812,500</b>         | <b>6,022,757</b>                           |

(a) 1,812,500 options to acquire equity securities.

(b) Includes a non-beneficial interest of 30,000 shares as Co-Executor of a deceased estate.

## INTERESTS REGISTER

### SHARE DEALINGS

Feltex Directors disclosed the following transactions in Feltex Shares during the year.

| DIRECTOR     | DATE OF<br>TRANSACTION | CONSIDERATION<br>PER SHARE | NUMBER<br>OF SHARES<br>ACQUIRED | NATURE OF<br>RELEVANT<br>INTEREST |
|--------------|------------------------|----------------------------|---------------------------------|-----------------------------------|
| Peter Thomas | 14 October 2004        | \$1.60                     | 16,500                          | Beneficial                        |
|              | 11 May 2005            | -                          | 30,000                          | Non-beneficial                    |
| Sam Magill   | 25 August 2004         | \$1.67/1.68                | 100,000                         | Beneficial                        |
|              | 12 October 2004        | \$1.58                     | 50,000                          | Beneficial                        |
|              | 31 March 2005          | \$1.47                     | 50,000                          | Beneficial                        |
| David Hunter | 20 October 2004        | \$1.57                     | 6,000                           | Beneficial                        |

### INTEREST IN TRANSACTIONS

There were no specific disclosures made during the year of any interests in transactions entered into by Feltex.

Directors advised the following changes to their general disclosures in the interests register during the year:

| DIRECTOR       | ENTITY                              | DISCLOSURE              |
|----------------|-------------------------------------|-------------------------|
| Peter Thomas   | Chance Bingo Australia Pty Ltd      | Appointed as a director |
|                | Orion Associates Pty Limited        | Appointed as a director |
| Michael Feeney | Feenix Lifelong Learning Pty Ltd    | Appointed as a director |
|                | Collins Partners Corporate Advisory | Change of entity name   |

In addition, following 30 June 2005 Tim Saunders disclosed his resignation as a director of Capital Properties (NZ) Limited and New Zealand Exchange Limited and Peter Thomas disclosed his resignation as a director of Titan Resources NL (Australia).

### DIRECTOR RESIGNATIONS

Details contained in the interest register relating to Joan Withers and Craig Horrocks were removed from the register upon their resigning as a director of Feltex.

### DIRECTORS AND OFFICERS INSURANCE

Feltex has arranged directors' and officers' liability insurance to cover, to the extent normally covered by such insurance policies, the risks arising out of acts or omissions of Directors and employees of Feltex and its subsidiaries.

## DIRECTORS AND EXECUTIVES 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 of each Director of the Company and the subsidiaries are:

| <b>FELTEX CARPETS LIMITED</b>          | <b>FEES<br/>\$000</b> | <b>SALARY<br/>\$000</b> | <b>BONUSES<br/>\$000</b> | <b>OTHER<br/>\$000</b> | <b>TOTAL<br/>\$000</b> |
|--|-----------------------|-------------------------|--------------------------|------------------------|------------------------|
| <b>COMPANY</b>                         |                       |                         |                          |                        |                        |
| Michael Feeney                         | 80                    | -                       | -                        | -                      | 80                     |
| David Hunter                           | 80                    | -                       | -                        | -                      | 80                     |
| Tim Saunders                           | 140                   | -                       | -                        | -                      | 140                    |
| Peter Thomas                           | 80                    | -                       | -                        | -                      | 80                     |
| Craig Horrocks - Resigned 12 July 2005 | 80                    | -                       | -                        | -                      | 80                     |
| Joan Withers - Resigned 2 June 2005    | 80                    | -                       | -                        | -                      | 80                     |
|  | <b>540</b>            | <b>-</b>                | <b>-</b>                 | <b>-</b>               | <b>540</b>             |
| <b>SUBSIDIARIES</b>                    |                       |                         |                          |                        |                        |
| <b>Feltex Australia Pty Limited</b>    |                       |                         |                          |                        |                        |
| Samuel Magill                          | -                     | 512                     | 126 <sup>(1)</sup>       | -                      | 638                    |
| <b>Allmere Pty Limited</b>             |                       |                         |                          |                        |                        |
| Michael Feeney                         | -                     | -                       | -                        | 56                     | 56                     |
| Russell Martin                         | -                     | -                       | -                        | 30                     | 30                     |
| <b>Total remuneration</b>              | <b>540</b>            | <b>512</b>              | <b>126</b>               | <b>86</b>              | <b>1,264</b>           |

(1) This amount related to the performance for the year ended 30 June 2004 and was provided for in financial year 2004. The amount was paid in September 2004.

## SUBSIDIARY COMPANY DIRECTORS

Feltex is required to disclose details of the directors of each of its subsidiaries and details of the total remuneration and value of other benefits received by each director and any former directors of such subsidiaries made during the year ended 30 June 2005.

Except as noted below, details of remuneration and other benefits paid to Directors are set out above. The directors of each subsidiary are set out below

**Feltex USA Incorporated** – Sam Magill

**Feltex Australia Holdings Pty Limited** – Tim Saunders, Sam Magill, Michael Feeney and Peter Thomas

**Feltex Australia Pty Limited** – Tim Saunders, Sam Magill, Michael Feeney and Peter Thomas

**Allmere Pty Limited** – Michael Feeney and Russell Martin.

During the course of the year Feltex deregistered the following subsidiaries:

Operations Limited, Carpet Mill Products New Zealand Limited, Mellon Investments Pty Limited, Invicta Carpets Incorporated, Shaw Tiles Australia Pty Limited and IGIPC Pty Limited.

## EXECUTIVE EMPLOYEES' REMUNERATION

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

|                                     |  | NUMBER OF EMPLOYEES |
|-------------------------------------|--|---------------------|
| <b>COMPANY</b>                      |  |                     |
| 100,000 - 110,000                   |  | 2                   |
| 110,000 - 120,000                   |  | 3                   |
| 120,000 - 130,000                   |  | 3                   |
| 130,000 - 140,000                   |  | 1                   |
| 140,000 - 150,000                   |  | 1                   |
| 150,000 - 160,000                   |  | 1                   |
| 160,000 - 170,000                   |  | 1                   |
| 230,000 - 240,000                   |  | 1                   |
| 270,000 - 280,000                   |  | 1                   |
| <b>SUBSIDIARIES</b>                 |  |                     |
| <b>Feltex Australia Pty Limited</b> |  |                     |
| 100,000 - 110,000                   |  | 13                  |
| 110,000 - 120,000                   |  | 7                   |
| 120,000 - 130,000                   |  | 11                  |
| 130,000 - 140,000                   |  | 8                   |
| 140,000 - 150,000                   |  | 3                   |
| 150,000 - 160,000                   |  | 3                   |
| 160,000 - 170,000                   |  | 4                   |
| 170,000 - 180,000                   |  | 2                   |
| 180,000 - 190,000                   |  | 1                   |
| 210,000 - 220,000                   |  | 2                   |
| 230,000 - 240,000                   |  | 3                   |
| 250,000 - 260,000                   |  | 1                   |
| 290,000 - 300,000                   |  | 1                   |
| 460,000 - 470,000                   |  | 1                   |
| <b>Feltex USA Incorporated</b>      |  |                     |
| 160,000 - 170,000                   |  | 1                   |

## FINANCIAL ASSISTANCE DISCLOSURE

In February 2004, Feltex established its Dividend Reinvestment Plan to provide shareholders the opportunity to use the dividends paid by Feltex to fund the acquisition of additional existing shares on-market. All Feltex shareholders may participate in the Plan, except for shareholders whose address is outside of New Zealand and the Board considers that offering the Plan to such Shareholders would breach the laws of their resident country. The maximum number of shares that any shareholder may nominate for participation is 10,000 shares.

The additional shares are purchased on behalf of participating shareholders by Forsyth Barr Limited and Feltex pays brokerage costs relating to the share purchases. No transaction costs are incurred by participating shareholders.

Payment of the brokerage costs by Feltex constitutes financial assistance for the purposes of the Companies Act 1993 and Feltex is required to disclose the amount of financial assistance provided by Feltex to all shareholders. During the year ended 30 June 2005, Feltex paid brokerage costs of \$2,514 in respect of the purchase of additional shares for participating shareholders under the Plan.

## DONATIONS

During the year ended 30 June 2005, Feltex made donations totalling \$30,000.

## AUDITORS

The amounts paid by Feltex to Ernst & Young during the year ended 30 June 2005 are set out at page 37.

## CREDIT RATING

Feltex has not sought a credit rating.

**FELTEX CARPETS LIMITED****JUNE 2005  
12 MONTHS  
\$000****JUNE 2004 <sup>(2)</sup>  
12 MONTHS  
\$000****JUNE 2003  
12 MONTHS  
\$000****JUNE 2002 <sup>(1)</sup>  
12 MONTHS  
\$000****JUNE 2001  
12 MONTHS  
\$000****STATEMENT OF FINANCIAL  
PERFORMANCE**

|  |                |                |                |                 |                 |
|--|----------------|----------------|----------------|-----------------|-----------------|
| <b>Total operating revenue</b>   | <b>300,199</b> | <b>329,064</b> | <b>315,473</b> | <b>323,008</b>  | <b>350,160</b>  |
| Operating surplus before interest and income tax   | 24,618         | 34,178         | 22,501         | 2,318           | 5,671           |
| Finance expense  | (8,716)        | (23,487)       | (15,695)       | (19,977)        | (18,799)        |
| Operating surplus / (deficit) before income tax  | 15,902         | 10,691         | 6,806          | (17,659)        | (13,128)        |
| Income tax (expense) / benefit   | (4,152)        | 492            | 35             | (383)           | (255)           |
| Net surplus / (deficit) after income tax   | 11,750         | 11,183         | 6,841          | (18,042)        | (13,383)        |
| (Surplus) / deficit after income tax attributable to minority shareholders in subsidiary companies | -              | -              | -              | (241)           | 202             |
| <b>Net surplus / (deficit) attributable to shareholders</b>  | <b>11,750</b>  | <b>11,183</b>  | <b>6,841</b>   | <b>(18,283)</b> | <b>(13,181)</b> |

**STATEMENT OF FINANCIAL POSITION**

|                           |         |         |         |         |         |
|---------------------------|---------|---------|---------|---------|---------|
| Total assets              | 276,222 | 259,584 | 252,565 | 230,822 | 274,714 |
| Total tangible assets     | 248,044 | 229,415 | 219,112 | 195,010 | 233,760 |
| Total liabilities         | 193,202 | 170,174 | 235,913 | 220,876 | 247,950 |
| Net assets (Total equity) | 83,020  | 89,410  | 16,652  | 9,946   | 26,764  |

**NOTES**

(1) 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.

(2) Financing expense for the year ended 30 June 2004 includes the following (refer to note 3):

- 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.