



Feltex Carpets Limited

Investment Statement and Prospectus



Carpetmaker to the world

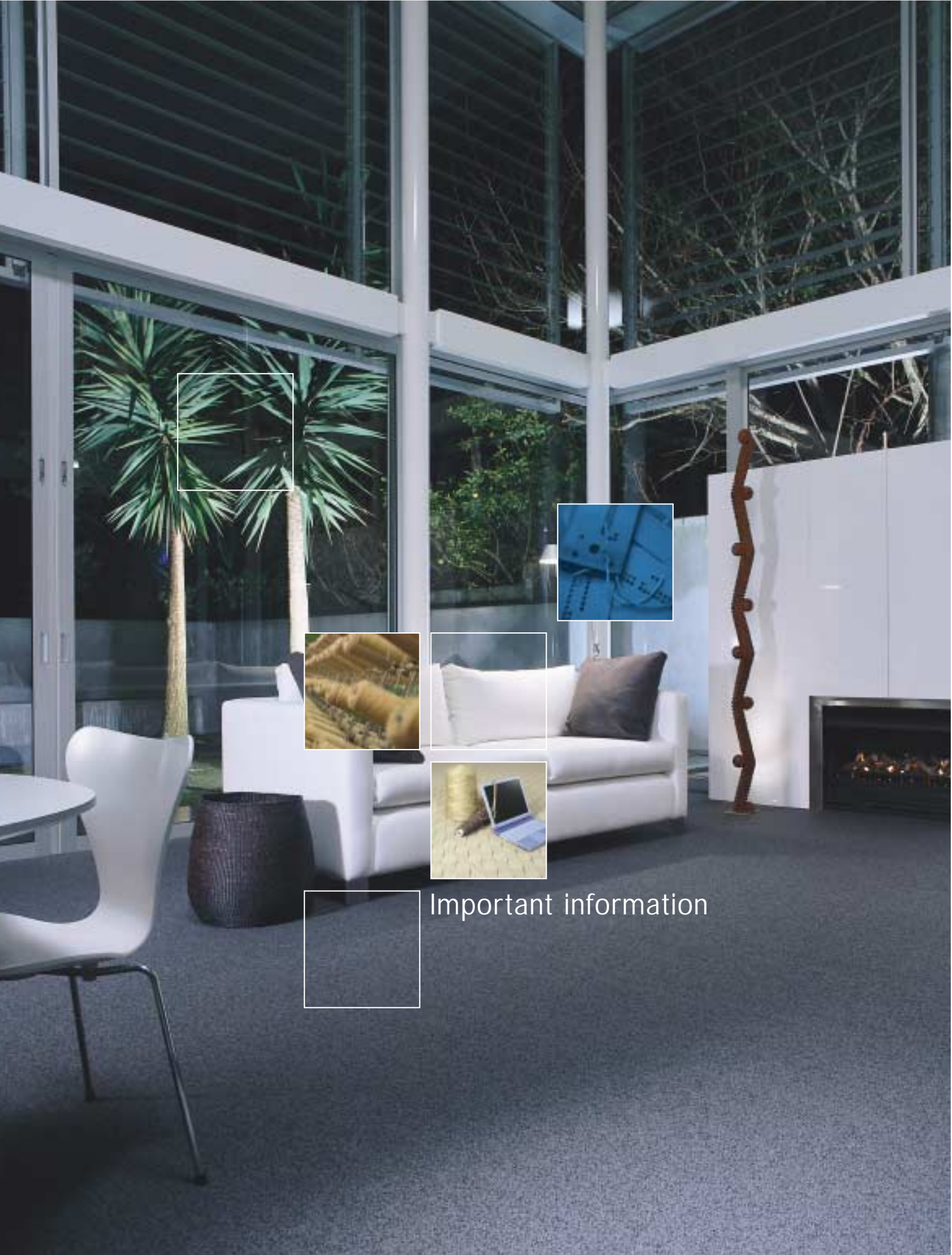
JOINT LEAD MANAGERS



FIRST NZ CAPITAL



FORSYTH BARR



Important information

The information in this section is required under the Securities Act 1978.

Investment decisions are very important. They often have long-term consequences. Read all documents carefully. Ask questions. Seek advice before committing yourself.

CHOOSING AN INVESTMENT

When deciding whether to invest, consider carefully the answers to the following questions that can be found on the pages noted below:

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In addition to the information in this document, important information can be found in the current registered prospectus for the investment. You are entitled to a copy of that prospectus on request.¹

CHOOSING AN INVESTMENT ADVISER

You have the right to request from any investment advisor a written disclosure statement stating his or her experience and qualifications to give advice. That document will tell you:

- Whether the adviser gives advice only about particular types of investments;

- Whether the advice is limited to the investments offered by one or more particular financial organisations; and
- Whether the adviser will receive a commission or other benefit from advising you.

You are strongly encouraged to request that statement. An investment adviser commits an offence if he or she does not provide you with a written disclosure statement within 5 working days of your request. You must make the request at the time the advice is given or within 1 month of receiving the advice.

In addition:

- If an investment adviser has any conviction for dishonesty or has been adjudged bankrupt, he or she must tell you this in writing; and
- If an investment adviser receives any money or assets on your behalf, he or she must tell you in writing the methods employed for this purpose.

Tell the adviser what the purpose of your investment is. This is important because different investments are suitable for different purposes.

IMPORTANT NOTICE

This Offer Document is for an offer by the Vendor and Feltex of fully paid ordinary shares in Feltex. This Offer Document has been prepared as at, and is dated, Wednesday, 5 May 2004.

This Offer Document is a combined investment statement and prospectus for the purposes of the Securities Act 1978 and the Securities Regulations 1983. The purpose of the investment statement section of this Offer Document under the section headed 'Answers to Important Questions' is to provide certain

1. This is the wording required by Schedule 3D to the Securities Regulations 1983 which contemplates a separate investment statement and prospectus. For this Offer, the two documents have been combined and accordingly the prospectus available on request is identical to this document.



key information that is likely to assist a prudent but non-expert person to decide whether or not to acquire Shares under the Offer. However, investors should note that other important information about the Shares and the Offer is available in the prospectus section of this Offer Document and at the registered office of Feltex.

REGISTRATION

A copy of this Offer Document duly signed by or on behalf of CSFB IGP as ultimate general partner of Credit Suisse First Boston Asian Merchant Partners, L.P., Credit Suisse First Boston Private Equity, Inc., the Directors of Feltex and the directors of Credit Suisse First Boston Private Equity, Inc., and having attached to it copies of the documents required by section 41 of the Securities Act 1978, was delivered to the Registrar of Companies for registration in accordance with section 42 of the Securities Act 1978 on the date of this Offer Document.

NEW ZEALAND EXCHANGE LISTING

Application has been made to NZX for permission to list the Shares under the symbol 'FTX'. All requirements of NZX relating thereto that can be complied with on or before the date of this Offer Document have been duly complied with. However, NZX does not accept any responsibility for any statement in this Offer Document. Initial quotation of the Shares on the NZSX is expected to occur on Friday, 4 June 2004. NZX has authorised NZX Firms to act on this Offer.

GUARANTEE

No person or entity guarantees the Shares offered in this Offer Document.

RISKS

Details of certain risks associated with an investment in the Shares are set out under the heading 'What are my risks?' on pages 125 to 130 of this Offer Document.

USE OF FUNDS

Feltex will use the funds received from the issue of Shares by Feltex pursuant to the Offer to assist in funding the redemption of the Bonds.

REPORTING CURRENCY

Feltex has substantial businesses in both New Zealand and Australia, and generates significant revenues and undertakes significant expenditure in both New Zealand and Australian currencies. Where practicable, financial information contained in the 'Summary Pricing Table', 'Summary Financial Information', 'Management Discussion and Analysis of Financial Results', 'Prospective Financial Information', 'Historical Five-Year Summary Financial Information', 'Consolidated Financial Statements' and 'Notes to Consolidated Financial Statements' sections of this Offer Document has been reported in New Zealand dollars, with Australian dollar denominated amounts being translated in accordance with applicable accounting standards.

OVERSEAS INVESTORS

The Offer (excluding the Enhanced Priority Offer and the Priority Offer) is only made to members of the public in New Zealand and to institutional investors in New Zealand, Australia (being persons that do not require an Australian Prospectus under section 708 of the Corporations Act (Cth) 2001) and potentially elsewhere. The Enhanced Priority Offer and the Priority Offer are only being made to Bondholders with New Zealand addresses. No person may offer, invite, sell or deliver any Shares or distribute any documents (including this

Offer Document) to any person outside New Zealand except in accordance with all of the legal requirements of the relevant jurisdiction. Unless otherwise agreed with the Vendor and Feltex, any person or entity subscribing for Shares in the Offer will, by virtue of such subscription be deemed to represent that he, she or it is not in a jurisdiction that does not permit the making of an offer or invitation of the kind contained in this Offer Document and is not acting for the account or benefit of a person within such a jurisdiction. None of the Promoter, Vendor, Feltex, the Joint Lead Managers, the Organising Participants, the Co-Managers nor any of their respective directors, officers, employees, consultants, agents, partners or advisers accepts any liability or responsibility to determine whether a person is able to participate in the Offer.

TAKEOVERS CODE

The Takeovers Code prohibits any person (together with their Associates (as defined in the Takeovers Code)) from becoming the holder or controller of 20% or more of the voting rights in Feltex other than in compliance with the requirements of the Takeovers Code. Investors are advised to seek legal advice in relation to any act, omission or circumstance which may result in that investor breaching any provision of the Takeovers Code.

DEFINITIONS

Capitalised terms in this Offer Document have a specific meaning and are defined in the Glossary on pages 143 to 145 of this Offer Document.

All references to \$ are to New Zealand dollars unless specified otherwise.





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**We don't just make carpets.
We're making a difference.**

Feltex is the only carpet manufacturer to adopt the Environmental Choice New Zealand label. This unique certification is your assurance that this carpet complies with a strict set of environmental requirements. Laid down by Telarc, New Zealand's technical and quality accreditation and certification body, the Environmental Choice label means this carpet has been made using methods that improve energy efficiency, reduce hazardous by-products and use recycled materials. There's only one world, and there's only one New Zealand carpet manufacturer prepared to make a difference. Which is one more reason why Feltex is a better choice.



RECOMMENDED USAGE
RESIDENTIAL EXTRA HEAVY DUTY

This carpet has been independently tested to meet Wools of New Zealand's quality standards for maximum appearance retention and performance, in all weather conditions including rain, under severe heavy duty residential usage.

Wool carpet
to your
guarantee
in a d...
Quality
The Telarc
displayed
certifying to
international
management
Wool carpet
A naturally resilient
to maintain. As
in texture and color
performance will a
Insect resistance
This carpet has been
5 year warranty against
from date of sale.
Please do not use any other material
www.feltex.co.nz

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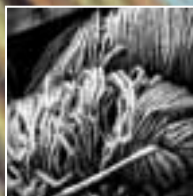









Key investment features



FELTEX HAS A LONG-STANDING AND SUCCESSFUL OPERATING HISTORY...

Feltex has been operating in New Zealand since the 1920s, and is now one of the two largest Australasian carpet manufacturers, producing a wide range of high quality carpets under a portfolio of well-known brand names, such as Feltex Reserve, Feltex Classic, Feltex Commercial, Feltex Woven, Invicta, Kensington, Redbook and Minster. Feltex is considered a New Zealand icon.

...WITH A NUMBER OF SUSTAINABLE OPERATIONAL STRATEGIES NOW SUCCESSFULLY IMPLEMENTED...

Since the integration of Shaw Industries Australia in 2000, management has successfully implemented a variety of operational initiatives that have realised an estimated \$13 million of annual cost savings and synergistic benefits. These initiatives include the integration of the production, sales, distribution and administrative teams in New Zealand and Australia, utilising excess internal wool scouring capacity in New Zealand, shifting yarn production to a lower cost base in New Zealand, the introduction of lean manufacturing techniques, rationalisation of stock keeping units and improved supply chain management.

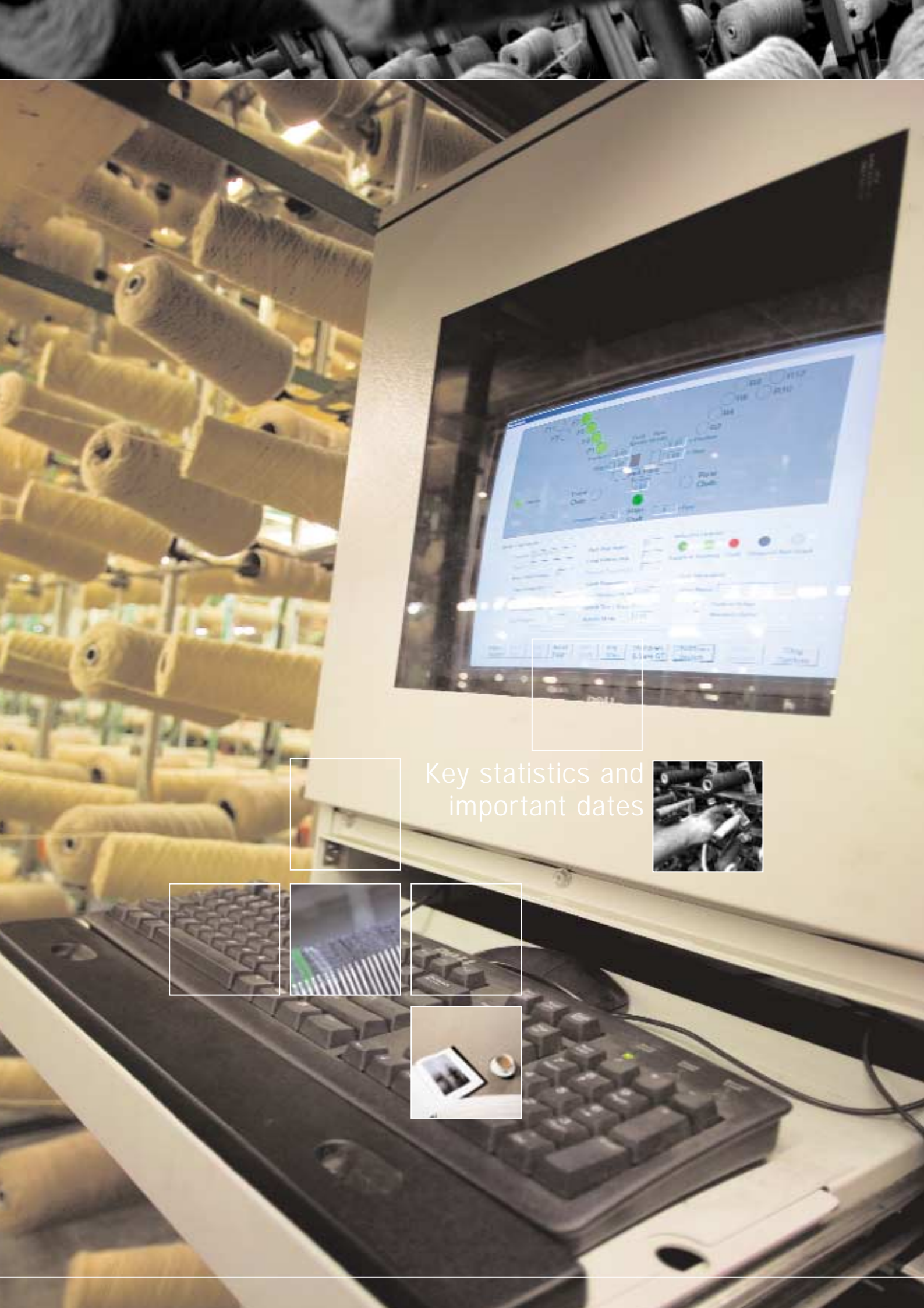
...POSITIONING FELTEX AS A RESPONSIVE SERVICE-ORIENTED MANUFACTURER OF SIGNIFICANT SCALE...

Feltex manufactures over 17 million square metres of carpet per annum and has annual sales in excess of \$310 million. A focused design approach and recent investment in new production styling technology has enabled Feltex to develop a number of new designs and products offering consumers a full range of styles to better service their needs and respond to changing fashions and trends. Feltex has continued to expand its relationships with key customers and suppliers and has significantly increased its customer service levels.

...WITH EXCELLENT INVESTMENT FEATURES – SOLID CORE EARNINGS AND POTENTIAL FOR FURTHER EARNINGS GROWTH

The successful implementation of these strategies and initiatives provides Feltex with an excellent earnings base and competitive position. Feltex now has the infrastructure, manufacturing capacity, cost base and marketing strategies in place to capitalise on market opportunities and support further revenue and earnings growth. Feltex is projecting EBITDA of \$52 million in FY2005, an increase of 13% on forecast EBITDA (on a pro-forma basis adjusted for one-off items) of \$46 million in FY2004. The FY2004 forecast pro-forma EBITDA is, in turn, an increase of 48% on EBITDA of \$31 million in FY2003. Feltex is projecting dividend payments that imply a gross dividend yield of 8.6% - 9.6% in respect of the financial year ending June 2005 (to be paid in March 2005 and October 2005).

'Feltex - Carpetmaker to the world'



Key statistics and important dates



KEY STATISTICS

Company	Feltex Carpets Limited
Vendor	Credit Suisse First Boston Asian Merchant Partners, L.P.
Promoter	Credit Suisse First Boston Private Equity, Inc.
Shares being sold by the Vendor as part of the Offer	113,523,100 Shares
Shares being sold by the Vendor outside of the Offer	6,476,900 Shares
New Shares being issued by Feltex^{1,2}	25,641,026 - 29,411,765 Shares
Total Shares being offered¹	139,164,126 - 142,934,865 Shares
Total Shares on issue upon completion of the Offer¹	145,641,026 - 149,411,765 Shares
Indicative Price Range per Share	\$1.70 - \$1.95
Market capitalisation^{1,3}	\$254 million - \$284 million

NOTES

1. Calculated using the Indicative Price Range of \$1.70 to \$1.95 per Share.
2. Assumes all Shares issued by Feltex are allotted at the Final Price.
3. Calculated as Shares on issue at the conclusion of the Offer, multiplied by the Final Price.

IMPORTANT DATES

Prospectus registered	Wednesday, 5 May 2004
Offer opens	Wednesday, 5 May 2004
Closing date for Enhanced Priority Offer, Priority Offer and Public Offer applications	Friday, 21 May 2004
Final Price and Public Offer allocations announced	Monday, 24 May 2004
Refunds sent to unsuccessful Public Offer applicants	Friday, 28 May 2004
Closing date for applications under Firm Allocation	Wednesday, 2 June 2004
Shares allotted*	Wednesday, 2 June 2004
Bond Call Option settled*	Wednesday, 2 June 2004
Shares quoted on the NZSX and commence trading*	Friday, 4 June 2004
Holding statements sent to Shareholders no later than*	Saturday, 5 June 2004

* Conditional on Offer closing. The Vendor and Feltex have the right to vary the closing dates.



Summary pricing table

FELTEX FY2005 PROJECTED IMPLIED MULTIPLES AND YIELD¹

	FINAL PRICE PER SHARE ²	
	\$1.70	- \$1.95
Fully Paid Shares on Issue (million) ³	149.4	145.6
Market Capitalisation (\$ million) ⁴	254.0	284.0
Enterprise Value (\$ million) ⁵	348.1	378.1
FY2005 Projected EBITDA (\$ million)	51.7	
FY2005 Projected EBITA (\$ million)	43.3	
FY2005 Projected NPAT (pre-goodwill amortisation) (\$ million)	25.9	
FY2005 Projected Cash Dividend (\$ million) ⁶	19.5	
FY2005 Offer Multiples and Yield		
Enterprise Value / EBITDA	6.7x	7.3x
Enterprise Value / EBITA	8.0x	8.7x
Price / Earnings (pre-goodwill amortisation) ⁷	9.8x	11.0x
Cash Dividend Yield ⁸	7.7%	6.9%
Gross Dividend Yield ⁹	9.6%	8.6%

NOTE: EBITDA means earnings before interest, tax, depreciation and amortisation

EBITA means earnings before interest, tax and amortisation

NPAT (pre-goodwill amortisation) means net profit after tax before goodwill amortisation

- Figures in this table are derived from the projections prepared by Feltex and set out under the heading 'Prospective Financial Information' on pages 85 to 92 of this Offer Document. The projected multiples and gross yield should be read in conjunction with the projected assumptions set out under the heading 'Principal assumptions underlying the projections' on pages 90 to 92 of this Offer Document.
- Calculated using the bottom and top end of the Indicative Price Range.
- Shares on issue at the conclusion of the Offer.
- Calculated as Shares on issue at the conclusion of the Offer multiplied by the Final Price.
- Calculated as market capitalisation plus forecast net debt of \$94.1 million as at 30 June 2004 and following the redemption of the Bonds.
- In respect of the year ending 30 June 2005, an interim dividend of \$7.8 million is projected to be paid in March 2005 and a final dividend of \$11.7 million is projected to be paid in October 2005. In addition, a cash dividend of \$9.0 million is projected to be paid in October 2004 in respect of the year ending 30 June 2004.
- Calculated as the Final Price divided by earnings per Share. Earnings per Share calculated as projected net profit after tax and before amortisation divided by Shares on issue at the completion of the Offer.
- Calculated as projected cash dividend per Share divided by the Final Price. Cash dividend per Share calculated as projected cash dividend divided by Shares on issue.
- Calculated as projected cash dividend per Share plus projected imputation credits attached per Share divided by the Final Price. The dividends in respect of the year ending 30 June 2005 are projected to be 52% imputed.



Letter from the Chairman



Dear Investor,

On behalf of the Directors, it is with pleasure that I offer you the opportunity to become a Shareholder of Feltex Carpets Limited and to participate in the future growth of a long-standing and successful manufacturer of carpet in New Zealand and Australia.

This opportunity has arisen as our current shareholder, Credit Suisse First Boston Asian Merchant Partners, L.P., has advised Feltex of its intention to sell its Shares by way of a public offering. In conjunction with this sale, Feltex is raising \$50 million of new capital to assist with the redemption of the Bonds issued by Feltex in May 2003. In recognition of the support that Bondholders have provided Feltex, Bondholders are being given an additional opportunity to participate in the Offer with priority status and at a discounted price.

Feltex's heritage is in the manufacturing of carpets in New Zealand and I am very pleased to see Feltex returning to New Zealand ownership. Today, Feltex is a leading manufacturer of carpets in New Zealand and Australia with a strong portfolio of brands in both the residential and commercial markets. These brands include Feltex Reserve, Feltex Classic, Feltex Commercial, Feltex Woven, Invicta, Kensington, Redbook and Minster. Since the purchase of Shaw Industries Australia in May 2000, Feltex has successfully implemented a large number of operational strategies and has been transformed into an integrated Australasian business of significant scale.

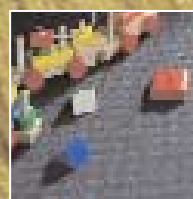
The achievement of Feltex's current level of sales and profitability reflects the quality of Feltex's business, brands and management team. Our senior executives are among the most experienced in the Australasian carpet industry and have the experience and market knowledge required to continue to grow the Feltex business. Following the Offer, the senior management team will have a meaningful equity interest in Feltex, which reflects the commitment that the management team has to Feltex and to driving future growth and earnings.

The Board and management team are extremely proud of Feltex's achievements and are enthusiastic about Feltex's future. On behalf of the Board, I commend the Offer to you and look forward to welcoming you as a Shareholder in Feltex.

Yours sincerely



Tim Saunders
Chairman
Feltex Carpets Limited



Investment features

FELTEX HAS A LONG-STANDING AND SUCCESSFUL OPERATING HISTORY...

- Feltex has a diversified portfolio of established brands that are well recognised in New Zealand and Australia, including Feltex Reserve, Feltex Classic, Feltex Commercial, Feltex Woven, Invicta, Kensington, Redbook and Minster.
- Feltex is the only company in Australasia that produces the full spectrum of carpet types - both tufted and woven wool carpets and tufted man-made fibre carpets, to satisfy its customers' requirements.
- Feltex has a diversified manufacturing base with six sites in New Zealand (Christchurch, Dannevirke, Feilding, Foxton, Kakariki and Lower Hutt) and four in Australia (Braybrook, Brooklyn, Hallam and Tottenham).
- Feltex has an established and experienced management team led by Chief Executive Officer, Mr Sam Magill, who has 36 years experience in the carpet industry and 27 years with Feltex's Australian business.
- Feltex has a number of key relationships and strategic alliances with industry participants for training and technology, raw materials supply and product representation and the use of well known trade marks such as Stainmaster®.
- Feltex is considered a New Zealand icon.
The name Feltex is synonymous with carpets, hence the Company's statement 'Feltex – Carpetmaker to the world'.

...WITH A NUMBER OF SUSTAINABLE OPERATIONAL STRATEGIES NOW SUCCESSFULLY IMPLEMENTED...

- Feltex has realised an estimated \$13 million of annual synergies following the acquisition of Shaw Industries Australia in 2000. Sustainable cost savings have been realised from a number of initiatives including:

- higher utilisation of Feltex's wool scouring capacity in New Zealand;
- higher utilisation of New Zealand yarn capacity;
- shifting yarn production to a lower cost base in New Zealand; and
- reducing overheads through the integration and rationalisation of the production, sales, distribution, logistics and administration teams of the New Zealand and Australian businesses.
- In addition, management has implemented lean manufacturing techniques, streamlined distribution, rationalised product stock keeping units and improved supply chain management to further increase cost efficiency and customer service and to reduce working capital.
- Feltex has successfully repositioned and focused its product mix towards the higher value and higher margin end of the product spectrum. This has resulted in significantly improved EBITDA.
- Feltex has recently announced the restructuring of its woven carpet operations in Christchurch and the closure of its rubber underlay manufacturing plant in Wellington. These initiatives are expected to realise sustainable cost savings in excess of \$3 million per annum which will have a corresponding positive impact on earnings.

...POSITIONING FELTEX AS A RESPONSIVE SERVICE-ORIENTED MANUFACTURER OF SIGNIFICANT SCALE...

- Feltex manufactures over 17 million square metres of carpet per annum and has annual sales of over \$310 million. As a leading carpet manufacturer in Australasia, this significant scale provides Feltex with a competitive manufacturing cost base and marketing and purchasing advantages.





- Feltex's focused design team and an association with Shaw Industries, Inc. (the world's largest carpet manufacturer) enable Feltex to respond quickly to trends in the global carpet market and to stay at the forefront of new designs and products.
- Recent investment in new technology has enabled Feltex to develop a number of new designs and products offering consumers additional ranges and styles of carpet to better service their needs and meet changing fashions and trends.
- Feltex has continued to expand its relationships with key customers and has significantly increased its customer service levels. As a result of these strategies, on-time deliveries and customer satisfaction levels have all demonstrably improved.
- application of lean manufacturing techniques to its New Zealand operations following their successful implementation in Australia;
- an increased advertising and marketing programme to further promote Feltex brand awareness and increase consumer preference; and
- ongoing investment in new styling production technology to further expand and differentiate Feltex's product range from its competitors.

**...WITH EXCELLENT INVESTMENT FEATURES –
SOLID CORE EARNINGS AND SIGNIFICANT
POTENTIAL FOR FURTHER EARNINGS GROWTH.**

- The successful implementation of these marketing and operational initiatives provide Feltex with an excellent earnings platform and strong competitive position in the Australasian carpet market.
- Feltex now has the infrastructure, manufacturing capacity, cost base and the following key strategies in place to capitalise on market opportunities and support further revenue and earnings growth:
 - the introduction of new product ranges and styles to recapture and grow market share;
- Feltex has implemented two executive option schemes designed to closely align management incentives with Shareholder value creation.
- Feltex actively monitors selected potential acquisition and consolidation opportunities in the Australasian market to augment organic growth.
- A positive outlook for carpet demand, with sound residential and commercial building activity is expected to support Feltex's sales through FY2005.
- Feltex is projecting EBITDA of \$52 million in FY2005, an increase of 13% on forecast EBITDA (on a pro-forma basis adjusted for one-off items) of \$46 million in FY2004. The FY2004 forecast pro-forma EBITDA is, in turn, an increase of 48% on EBITDA of \$31 million in FY2003.
- Feltex is projecting cash dividends of \$9.0 million in respect of the year ending 30 June 2004 (to be paid in October 2004) and \$19.5 million (projected to be imputed to 52%) in respect of the year ending 30 June 2005 (to be paid in March 2005 (interim) and October 2005 (final)).
- The dividends in respect of the year ending June 2005 are projected to provide a gross yield of 8.6% - 9.6%.





Summary financial
information

The financial information summarised below is extracted from the audited consolidated financial statements of Feltex for the financial years ended June 2002 and June 2003 as set out on pages 96 to 114 and the prospective financial information of Feltex for the financial years ending June 2004 and June 2005 as set out on pages 85 to 92 of this Offer Document.

SUMMARY FINANCIALS

12 MONTHS TO 30 JUNE	2002	2003	2004 ¹	2005 ¹
	ACTUAL \$000	ACTUAL \$000	FORECAST \$000	PROJECTED \$000
Total Operating Revenue	322,506	314,352	335,498	348,147
EBITDA	13,219	31,018	41,641	51,683
EBITA	3,894	23,175	33,565	43,256
NPAT (before amortisation, write-offs and Early Redemption Amount)			22,307	25,873

1. For further information on the forecast 2004 and projected 2005 financial information, including the assumptions underlying this summary, please see 'Prospective Financial Information' on pages 85 to 92 of this Offer Document.

ONE-OFF ITEMS

12 MONTHS TO 30 JUNE	2002	2003	2004	2005
	ACTUAL \$000	ACTUAL \$000	FORECAST \$000	PROJECTED \$000
Christchurch woven plant redundancies			2,800	
Rubber underlay closure costs			1,350	
Adjustment made to EBITDA, EBITA and NPAT ²			4,150	

2. No tax effect assumed in adjusting NPAT by one-off items given no tax paid in 2004 due to utilisation of tax losses.

SUMMARY FINANCIALS (ADJUSTED FOR ONE-OFF ITEMS)

12 MONTHS TO 30 JUNE	2002	2003	2004	2005
	ACTUAL \$000	ACTUAL \$000	FORECAST \$000	PROJECTED \$000
Total Operating Revenue	322,506	314,352	335,498	348,147
EBITDA	13,219	31,018	45,791 ³	51,683
EBITA	3,894	23,175	37,715 ³	43,256
NPAT (before amortisation, write-offs and Early Redemption Amount)			26,457 ³	25,873

3. Pro-forma adjusted for one-off items



Details of the Offer



This Offer Document is a combined investment statement and prospectus in respect of an Offer by the Vendor and Feltex of Shares in Feltex.

THE OFFER

The Offer comprises the sale of Shares in Feltex on the following basis:

- a primary offer by Feltex of \$50 million of new Shares (being 25,641,026 to 29,411,765 Shares based on the Indicative Price Range) to members of the public in New Zealand and institutional investors in New Zealand, Australia and potentially elsewhere. Feltex will use the funds received from the issue of Shares by Feltex pursuant to the Offer to assist in funding the redemption of the Bonds; and
- a secondary sale by the Vendor of 113,523,100 Shares (being Shares valued at \$193.0 million to \$221.4 million based on the Indicative Price Range) to members of the public in New Zealand, Bondholders with New Zealand addresses and institutional investors in New Zealand, Australia and potentially elsewhere.

The opening date of the Offer will be Wednesday, 5 May 2004. The Offer comprises the Public Offer, firm allocation to NZX Firms and to institutional investors, the Enhanced Priority Offer and the Priority Offer. The Enhanced Priority Offer, the Priority Offer and the Public Offer close at 5.00pm on Friday, 21 May 2004. The closing date of the Offer for applications pursuant to firm allocation will be 12 noon on Wednesday, 2 June 2004. The Vendor and Feltex may amend these dates at their discretion.

PRICING

The Indicative Price Range of \$1.70 to \$1.95 per Share has been set by the Vendor and Feltex in consultation with the Joint Lead Managers.

The Vendor and Feltex, in consultation with the Joint Lead Managers, will set the Final Price on or before Monday, 24 May 2004 following a book build process described under the heading 'Pricing of Shares' on page 28 of this Offer Document. The Vendor and Feltex reserve the right to set the Final Price outside the Indicative Price Range. However, the Retail Price will not be greater than \$1.95 per Share.

Shares allocated under the book build process (other than those allocated to NZX Firms under firm allocation) will be allotted at the Final Price. Shares allocated under the Public Offer (except those allocated to Feltex Employees) or to NZX Firms under firm allocation will be allotted at the Retail Price, being the lesser of the Final Price and \$1.95 per Share. Shares allocated to Feltex Employees or to Bondholders under the Enhanced Priority Offer and the Priority Offer will be allotted at 95% of the Retail Price. To the extent possible, all Shares allotted by Feltex in the Offer will be allotted at the Final Price. All applications for Shares under the Offer should be made on a dollar value basis.



SUMMARY OF THE OFFER STRUCTURE

The table below summarises how each class of applicant may participate in the Offer, the price they will pay for Shares, the applicable closing dates and the minimum application size.

OFFER	PARTICIPANT	PRICE PER SHARE TO BE PAID	CLOSING DATE	MINIMUM APPLICATION SIZE
Public Offer	General applicants	Retail Price	21 May 2004	\$2,500
Public Offer	Eligible Feltex Retailers, Suppliers and Contractors	Retail Price	21 May 2004	\$1,000
Public Offer	Feltex Employees	95% of Retail Price	21 May 2004	\$1,000
Enhanced Priority Offer	Bondholders	95% of Retail Price	21 May 2004	100% of Bonds held
Priority Offer	Bondholders	95% of Retail Price	21 May 2004	\$500
Firm Allocation	Clients of NZX Firms	Retail Price	2 June 2004	\$2,500
Book Build	Institutional investors	Final Price	21 May 2004	N/A

PUBLIC OFFER

The Public Offer is incorporated in the Offer and is open to members of the public in New Zealand as well as Bondholders in New Zealand, Feltex Employees in New Zealand and Feltex Retailers, Suppliers and Contractors in New Zealand. The closing date for the Public Offer is 5.00pm on Friday, 21 May 2004 unless extended by the Vendor and Feltex. Public Offer applicants should submit their application as soon as possible in accordance with the instructions on page 148 of this Offer Document.

All Public Offer applicants will pay the Retail Price for Shares with the exception of Feltex Employees who will pay 95% of the Retail Price.

The Public Offer may be scaled. However, if scaling occurs, Bondholders who have applied for Shares in addition to participating in the Enhanced Priority Offer or the Priority Offer, Feltex Employees and Eligible Feltex Retailers, Suppliers and Contractors will receive an allocation preference over general Public Offer participants.

Scaling, if any, will be determined by the Vendor and Feltex in consultation with the Joint Lead Managers and may not necessarily be on a pro-rata basis.

The Vendor, Feltex and the Joint Lead Managers reserve the right to progressively allocate Shares from the Public Offer on a firm basis to NZX Firms throughout the Public Offer period.

FIRM ALLOCATION TO NZX FIRMS

An aggregate amount of \$100 million of Shares (representing 35.2% to 39.4% of the total Shares based on the Indicative Price Range) has been allocated on a firm basis to the Organising Participants and the Co-Managers. In addition, up to \$30 million of Shares (representing 10.6% to 11.8% of the total Shares based on the Indicative Price Range) have been reserved for allocation on a firm basis to NZX Firms. Further firm allocation may be obtained by NZX Firms under the book build process described under the headings 'Pricing of Shares' and 'Allocations' on page 28 of this Offer Document. All Shares offered to NZX Firms under firm allocation will be allotted at the Retail Price. In the event the Offer is oversubscribed, applications pursuant to firm allocation will not be subject to scaling. In addition, the Joint Lead Managers have committed to take a firm allocation for an amount of Shares equal to the difference between \$60 million (being the aggregate face value of the Bonds) and the value of the Shares which are to be allotted pursuant to the Enhanced Priority Offer and the Priority Offer up to a maximum difference of \$30 million.

BONDHOLDER PARTICIPATION IN THE OFFER

In this section, capitalised terms not otherwise defined in the Glossary have the meaning given to them in the Bond Trust Deed which is available from Feltex or on the Companies Office website at www.companies.govt.nz.

Background

In May 2003, Feltex issued \$60 million of Bonds. Feltex intends to use the proceeds from the issue of \$50 million of new Shares (together with additional drawings under its bank facility) to redeem these Bonds immediately following the successful closing of the Offer. Under the terms of the Bond Trust Deed, Feltex can redeem the Bonds by exercising Feltex's call option (the 'Bond Call Option') and by paying Bondholders what is termed the 'Call Exercise Price' for the Bonds. This comprises a payment for the face value of the Bonds, an Early Redemption Amount (detailed below) and Accrued Interest on the Bonds for the period up to (but excluding) 15 June 2004. If the Offer is successful, Feltex intends to immediately exercise the Bond Call Option and to settle the Bond Call Option on that day. Even though Feltex is to settle the Bond Call Option on the day of closing it will still pay the full amount of Accrued Interest on the Bonds for the period up to (but excluding) 15 June 2004. Payments of amounts owing to Bondholders as a result of the redemption of the Bonds will be made on or before Thursday, 10 June 2004.

The Bond Trust Deed envisaged that Feltex may undertake an initial public offering of its Shares following the Bond issue and, in this regard, Bondholders were given a priority right to subscribe for \$500 of Shares for every \$1,000 face value of Bonds held at the time of the initial public offering at 95% of the offer price. Accordingly, Bondholders are being offered the 'Priority Offer' described below.

However, in recognition of their support of Feltex, the Vendor and Feltex have decided to offer Bondholders the opportunity to participate in the Enhanced Priority Offer instead of participating in the Priority Offer.

The Enhanced Priority Offer entitles Bondholders to effectively exchange all their Bonds for Shares in Feltex at a price of 95% of the Retail Price.

Alternatives available to Bondholders

Bondholders with New Zealand addresses have three alternatives available to them. They can:

1. participate in the Enhanced Priority Offer, which enables Bondholders to effectively exchange all their Bonds for Shares in Feltex at a price of 95% of the Retail Price; or
2. participate in the Priority Offer in accordance with the terms of the Bond Trust Deed, which enables Bondholders to apply for \$500 of Shares in the Offer for every \$1,000 face value of Bonds they hold to be paid for at a price of 95% of the Retail Price; or
3. take no action,

in the knowledge that under the second and third alternatives, if the Offer closes, Feltex intends to immediately redeem the Bonds for cash, with payment to be made on or before Thursday, 10 June 2004.

Further details of each alternative are given below, together with an illustrative example for each of the three alternatives.

In addition, Bondholders who wish to subscribe for more Shares in the Offer than their entitlement under the Enhanced Priority Offer or the Priority Offer may apply for additional Shares under the Public Offer at the Retail Price. In the event of scaling of applications under the Public Offer, Bondholders who have applied for Shares under the Public Offer (in addition to participating in the Enhanced Priority Offer or the Priority Offer) will receive an allocation preference over general Public Offer applicants.

Enhanced Priority Offer

Under the Enhanced Priority Offer, Bondholders with New Zealand addresses will be entitled to effectively exchange the face value of their Bonds held as at 5.00pm on Friday, 21 May 2004 for Shares in the Offer at 95% of the Retail Price. The number of Shares



(rounded to the nearest whole Share) that Bondholders will receive on the scheduled closing date of the Offer on Wednesday, 2 June 2004 will be equal to:

$$\frac{\text{Face value of Bonds held}}{95\% \text{ of the Retail Price}}$$

Bondholders who participate in the Enhanced Priority Offer will not be required to make a cash payment for their Shares. Rather, payment will be effected by directing the Bond Trustee to pay to the Vendor the face value of their Bonds payable to them by Feltex as part of the Call Exercise Price to be paid on the redemption of the Bonds.

In addition to receiving Shares, Bondholders participating in the Enhanced Priority Offer will receive a cash payment reflecting:

- an interest payment of \$18.94 (less any applicable withholding taxes) for each \$1,000 face value of Bonds held, representing Accrued Interest on the Bonds up to (and including) Friday, 21 May 2004; and
- an Early Redemption Amount which will be dependent on certain interest rates as at Tuesday, 1 June 2004 but in any event will be no less than \$80 per \$1,000 face value of Bonds held.

These cash payments will be made by Feltex on or before Thursday, 10 June 2004.

Bondholders participating in the Enhanced Priority Offer will be treated as effectively exchanging their Bonds for Shares on Friday, 21 May 2004 (being the last day for Bondholders to apply to participate in the Enhanced Priority Offer) and will accordingly, as part of the Enhanced Priority Offer, assign to the Vendor the right to Accrued Interest on their Bonds from (and including) Saturday, 22 May 2004 up to (but excluding) Tuesday, 15 June 2004.

Pending the exercise of the Bond Call Option by Feltex and payment of the Call Exercise Amount to the Bond Trustee, Bondholders who participate in the Enhanced Priority Offer will, by completing the application form,

grant a security interest in their Bonds to the Vendor.

Calculation of the Early Redemption Amount

The Early Redemption Amount will be calculated on Wednesday, 2 June 2004 for each \$1,000 face value of Bonds held by a Bondholder participating in the Enhanced Priority Offer, as the amount in excess of the sum of \$1,000 and the Accrued Interest on the Bonds that would otherwise have been payable in respect of those Bonds on their redemption.

Under the terms of the Bond Trust Deed, the price to be paid under the Bond Call Option will be the greater of either:

- (i) 1.08 times the face value of the Bonds; or
- (ii) the Market Value of the Bonds, derived by valuing the Bonds using a discount rate equal to the swap rate to maturity plus 2%. Based on prevailing interest rates as at Monday, 3 May 2004, Feltex estimates the Market Value to be 1.07 times the face value of the Bonds.

Therefore, as an example, as at Monday, 3 May 2004, the Early Redemption Amount would be \$80 for each \$1,000 face value of Bonds participating in the Enhanced Priority Offer. The Market Value may be higher or lower if and when the Bonds are called but in no event will the Early Redemption Amount be less than \$80 for each \$1,000 face value of Bonds. The written notice from Feltex exercising the Bond Call Option will specify the Early Redemption Amount applicable to every \$1,000 face value of Bonds.

Instruction to Bond Registrar and Bond Trustee

The application form completed by Bondholders participating in the Enhanced Priority Offer will include an instruction to the Bond Registrar preventing the subsequent transfer of the Bonds to any other party. It will also instruct the Bond Trustee to pay to the Vendor the face value of the Bonds (as payment for the Shares allotted to the Bondholder) and the assigned Accrued Interest on those Bonds for the period from (and including) Saturday, 22 May 2004 up to (but excluding) Tuesday, 15 June 2004.

The balance of the Call Exercise Price (being the Early Redemption Amount and Accrued Interest on the Bonds for the period up to (and including) Friday, 21 May 2004) will be paid to the Bondholder by way of a funds transfer, or a cheque to be posted by ordinary mail, to the participating Bondholders no later than Thursday, 10 June 2004.

No cash is payable by Bondholders participating in the Enhanced Priority Offer. All valid applications under the Enhanced Priority Offer will be allotted in full.

Enhanced Priority Offer and Bond Call Option conditional on the Offer closing

The Enhanced Priority Offer and the exercise of the Bond Call Option by Feltex are conditional on the Offer closing. If the Offer does not close for any reason, then the Enhanced Priority Offer will not proceed and all existing rights will revert to the Bondholders as if they did not accept the conditional offer to participate in the Enhanced Priority Offer.

Other information

Bondholders wishing to participate in the Enhanced Priority Offer must complete and submit an application form for **all, but not some**, of the Bonds owned by them as at 5.00pm on Friday, 21 May 2004.

Bondholders participating in the Enhanced Priority Offer are relinquishing their priority right to subscribe under the Priority Offer.

The section 'What returns will I get?' on pages 123 to 125 of this Offer Document contains certain limited information regarding tax implications for Bondholders participating in the Enhanced Priority Offer.

Bondholders should seek their own financial and tax advice in connection with their participation in the Enhanced Priority Offer.

None of the Promoter, the Vendor, Feltex, the Joint Lead Managers, the Organising Participants, the Co-Manager nor any of their respective directors, officers, employees, consultants, agents, partners or advisers accepts any liability or responsibility for the tax implications for Bondholders participating in the Enhanced Priority Offer.

Priority Offer

Bondholders with New Zealand addresses are entitled under the Priority Offer to subscribe for \$500 of Shares for every \$1,000 face value of Bonds held as at 5.00pm on Friday, 21 May 2004 at a purchase price of 95% of the Retail Price in accordance with the terms of the Bond Trust Deed. Bondholders who participate in the Enhanced Priority Offer give up their right to participate in the Priority Offer. All valid applications under the Priority Offer will be allotted in full.

Bondholders who do not participate in the Enhanced Priority Offer and who subscribe for Shares under the Priority Offer will receive the Call Exercise Price, including the full quarterly interest payment for the interest period to Tuesday, 15 June 2004, for all Bonds held on the closing date of the Offer. Bondholders participating in the Priority Offer must send in a cheque for payment for the Shares prior to the closing date of Friday, 21 May 2004.

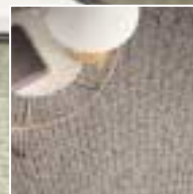
Rounding

Allotments under the Enhanced Priority Offer and the Priority Offer will be rounded to the nearest whole Share. No refunds will be given by the Vendor or Feltex for any difference arising solely due to rounding.

Bondholder participation in Public Offer

Bondholders who wish to subscribe for more Shares than their entitlement under the Enhanced Priority Offer or Priority Offer are also able to apply for additional Shares under the Public Offer at the Retail Price. In the event of scaling of applications under the Public Offer, Bondholders who have also applied for Shares under the Public Offer (in addition to participating in the Enhanced Priority Offer or the Priority Offer) will receive an allocation preference over general Public Offer applicants. Bondholders should use the standard application form to apply for additional Shares in the Public Offer in order to receive this preference and enclose this application with their Bondholder application form.





Trading halts

In order to facilitate the Enhanced Priority Offer and the Priority Offer, Feltex has requested, and NZX has approved, that trading in the Bonds be suspended from close of trading on Friday, 14 May 2004 until close of trading on Friday, 21 May 2004 and from close of trading on Wednesday, 26 May 2004 until close of trading on Wednesday, 2 June 2004.

Examples

The following three examples are given to illustrate the amount to be received by Bondholders depending on whether they participate in the Enhanced Priority Offer, the Priority Offer or take no action. In each case, the example is given on the basis that the Retail Price under the Offer is set at, and the Shares have a value of, \$1.825 per Share (being the mid-point in the Indicative Price Range) and on the basis that the Bonds are redeemed at the Call Exercise Price on Wednesday, 2 June 2004, but with Accrued Interest being paid on the Bonds up to (but excluding) Tuesday, 15 June 2004.

EXAMPLE 1 - Enhanced Priority Offer		
Amount received per \$1,000 face value of Bonds	\$	Approximate date paid/received
575 Shares having a value of	\$1,052.25	2 June 2004
Early Redemption Amount of at least	\$80.00	by 10 June 2004
Accrued Interest up to 21 May 2004	\$18.94*	by 10 June 2004
Total value received	\$1,151.19	

EXAMPLE 2 - Priority Offer (assuming no additional costs incurred by the Bondholder in financing the purchase of Shares for cash)		
Amount received per \$1,000 face value of Bonds	\$	Approximate date paid/received
Cash used to purchase Shares	(\$500.00)	5 - 21 May 2004
Principal repaid to Bondholder	\$1,000.00	by 10 June 2004
288 Shares having a value of	\$527.04	2 June 2004
Early Redemption Amount of at least	\$80.00	by 10 June 2004
Accrued Interest up to 15 June 2004	\$25.63*	by 10 June 2004
Total value received	\$1,132.67	

EXAMPLE 3 - Take no action (Bonds redeemed)		
Amount received per \$1,000 face value of Bonds	\$	Approximate date paid/received
Principal repaid to Bondholder	\$1,000.00	by 10 June 2004
Early Redemption Amount of at least	\$80.00	by 10 June 2004
Accrued Interest up to 15 June 2004	\$25.63*	by 10 June 2004
Total value received	\$1,105.63	

*Before any applicable withholding taxes.



PRICING OF SHARES

The Indicative Price Range of \$1.70 to \$1.95 per Share has been set by the Vendor and Feltex in consultation with the Joint Lead Managers.

The Vendor and Feltex, in consultation with the Joint Lead Managers, will set the Final Price on or before Monday, 24 May 2004 following the book build process described below.

Between Wednesday, 19 May 2004 and Friday, 21 May 2004 the Joint Lead Managers will undertake a book build process inviting NZX Firms and institutional investors in New Zealand, Australia and potentially elsewhere, to submit bids indicating the number of Shares they wish to apply for at a range of prices.

This book build process, in conjunction with demand from other investor classes at the close of the book build process, will be used to assist the Vendor and Feltex, in consultation with the Joint Lead Managers, to determine the Final Price.

The Final Price will be set prior to 10.00am on Monday, 24 May 2004 taking into account various factors, including the following:

- the overall demand profile for Shares at various prices;
- pricing indications from institutional investors and NZX Firms under the book build process;
- the level of demand for Shares from applicants under the Enhanced Priority Offer, the Priority Offer and the Public Offer;
- the desire of the Vendor and Feltex to have an orderly and successful aftermarket for the Shares; and
- any other factors the Vendor, Feltex, and the Joint Lead Managers consider relevant.

The Vendor and Feltex reserve the right to set the Final Price outside the Indicative Price Range. However, the Retail Price will not be greater than \$1.95 per Share.

The Final Price and the Retail Price will be released to the market through NZX and will be subsequently announced by a press release to the media and posted on a website that Feltex has created for the Offer (www.feltex-ipo.co.nz) on Monday, 24 May 2004.

The number of Shares offered pursuant to the Offer cannot be determined until the Final Price is set. Therefore, all applications for Shares under the Offer should be made on a dollar value basis. The number of Shares allotted to an investor will be rounded to the nearest whole Share, and no refund will be given by, or payment made to, the Vendor or Feltex for any difference resulting solely from rounding.

MINIMUM APPLICATIONS

Applications pursuant to firm allocation or from general Public Offer applicants must be for a minimum of \$2,500 of Shares. Applications from Feltex Employees, Eligible Feltex Retailers, Suppliers and Contractors on their prescribed forms must be for a minimum of \$1,000 of Shares. Applications under the Enhanced Priority Offer must be for all of a Bondholder's Bonds as at Friday, 21 May 2004. Applications under the Priority Offer must be for a minimum of \$500 of Shares.

ALLOCATIONS

Allocations of Shares under the Enhanced Priority Offer, the Priority Offer and firm allocation to the Organising Participants, the Co-Managers and other NZX Firms will not be subject to scaling.

Allocations of Shares to applicants participating in the Public Offer will be determined after the closing date for the Public Offer on the basis described on page 29 of this Offer Document.

Applicants participating in the Enhanced Priority Offer, Priority Offer or the Public Offer will be sent notices of allocation (together with any refunds for unsuccessful participants in the Public Offer) no later than Friday, 28 May 2004. Subject to the unconditional closing of

the Offer, holding statements will be sent to all successful applicants no later than Saturday, 5 June 2004.

Allocations of Shares to NZX Firms and institutional investors participating in the book build process will be determined by the Joint Lead Managers in conjunction with the Vendor and Feltex.

Among other factors, the following criteria will be used in determining firm allocation to NZX Firms and institutional investors participating in the book build process:

- price leadership, incorporating the levels of Shares bid for over the Indicative Price Range, and the degree of price sensitivity of that demand;
- participation in marketing activities organised by the Joint Lead Managers;
- consistency of a bidder's feedback in relation to the Offer, and consistency of a bidder's bidding behaviour;
- timeliness of bids, in particular the submission of bids early in the book build process; and
- in the case of institutional investors, that investor's bid size in relation to its holdings of other companies listed on the NZSX.

Allocations to NZX Firms and institutional investors participating in the book build process will be advised as soon as practicable on Monday, 24 May 2004.

Allocations are not to be made to employees of NZX Firms except through the Enhanced Priority Offer, the Priority Offer or the Public Offer.

No over subscriptions will be accepted in the Offer.

APPLICATIONS

Applications to subscribe for Shares under the Offer must be made on the application form contained at the back of this Offer Document. In the case of applications by Bondholders, Feltex Employees and Eligible Feltex Retailers, Suppliers and Contractors, applications must

be made on the prescribed application form (please contact the Share Registrar or a Joint Lead Manager if you have not received the prescribed application form).

Applicants should refer to the section titled 'Instructions and Application Forms' on page 148 of this Offer Document for further information on how to complete the application form.

Applicants who wish to receive a firm allocation of Shares should contact the Organising Participants or any other NZX Firm and then complete the application form contained at the back of this Offer Document.

The application form must be lodged with the NZX Firm through whom the firm allocation was obtained.

An application will constitute an irrevocable offer by the applicant to acquire the value of Shares specified in the application form (or such lesser value of Shares as the Vendor, Feltex and the Joint Lead Managers may determine) on the terms and conditions set out in this Offer Document and the application form.

OPENING AND CLOSING DATES

The opening date of the Offer will be Wednesday, 5 May 2004. Applications to participate in the Enhanced Priority Offer, the Priority Offer and the Public Offer close on Friday, 21 May 2004. The closing date of the Offer for applications pursuant to firm allocation will be noon on Wednesday, 2 June 2004.

The Vendor and Feltex may amend these dates at their discretion.

NEW ZEALAND EXCHANGE LISTING

Application has been made to NZX for permission to list the Shares under the symbol 'FTX'. All requirements of NZX relating thereto that can be complied with on or before the date of this Offer Document have been duly complied with. However, NZX accepts no responsibility for any statement in this Offer Document. Initial quotation of the Shares on the NZSX is expected to occur on Friday, 4 June 2004. NZX has authorised NZX Firms to act on this Offer.





ALLOTMENT

Application monies will be banked upon receipt into a designated bank account and held on trust by Feltex pending allocation of Shares. The banking of such monies does not constitute confirmation of allocation of any Shares.

Allotment of Shares to applicants is scheduled to take place on Wednesday, 2 June 2004. The Vendor and Feltex reserve the right to withdraw the Offer at any time prior to Wednesday, 2 June 2004, in which case no allotments of Shares would be made. Applicants should ascertain their allocation before trading in the Shares. Applicants can do so by contacting (by facsimile or in writing) Feltex's Share Registrar (Computershare Investor Services Limited) or, where applicable, the NZX Firm from whom the firm allocation was received. If an applicant fails to make payment for the Shares under the Offer or an applicant's cheque fails to clear, then the entitlement of that applicant to receive Shares may be cancelled, or any allotment of Shares to the applicant may be reversed.

Applicants selling Shares prior to receiving Shareholder holding statements will do so at their own risk. None of the Promoter, Vendor, Feltex, the Joint Lead Managers, the Organising Participants, the Co-Managers, nor any of their respective directors, officers, employees, consultants, agents, partners or advisers accepts any liability or responsibility should any person attempt to sell or otherwise deal with Shares before the statement showing the number of Shares allotted to the applicant is received by the applicant for those Shares.

The Vendor and Feltex reserve the right to decline any application in whole or in part, without giving any reason. Money received in respect of applications that are declined in whole or in part will be refunded in whole or in part (as the case may be). Refunds will be posted within five business days after allocation of Shares to successful applicants or after an application has been declined (as applicable). Interest will not be paid on any application money refunded to applicants.

SHAREHOLDINGS FOLLOWING THE OFFER

As at the date of this Offer Document, 119,999,999 Shares (representing 100% of the Shares on issue) are held by the Vendor. Prior to the closing of the Offer it is intended Feltex will undertake a taxable bonus issue, issuing one new Share to the Vendor.

Under the Offer, 113,523,100 Shares will be sold to members of the public in New Zealand, Bondholders with New Zealand addresses and institutional investors in New Zealand, Australia and potentially elsewhere. Conditional on the Offer closing, the remaining 6,476,900 Shares held by the Vendor will be acquired (directly or indirectly through associates) by Directors (except for Ms. Joan Withers) and Senior Managers of Feltex (the 'Participants') for consideration equal to the Retail Price. Such Shares are not available for application under the Offer. Accordingly the Participants and Senior Managers (or their associates) will collectively acquire a minimum of approximately 5.4% of the Shares currently held by the Vendor.

The Participants have been participating in a long term equity incentive plan ('the Plan') with the Vendor. The Plan is realisable in the event of a trade sale or IPO of Feltex. Pursuant to the Plan, the Participants can receive from the Vendor proceeds which will exceed the cost of the Shares that each Participant will acquire from the Vendor.

Therefore, the Shares to be acquired by the Participants will be purchased from the acquiror's own cash resources or from the proceeds received from the realisation of the Plan, or, alternatively, the consideration for the Shares may be satisfied by conversion of rights under the Plan. The Participants will collectively acquire Shares with a value equal to approximately half of the benefit received by them, collectively, from the Plan.

The respective ownership percentages of the Directors and Senior Managers or their associates (combined) and the participants in the Offer (following the issue of new Shares and the sale of the Vendor's Shares) are presented in the table below. The number of new



	POST-OFFER \$1.70 per Share	POST-OFFER \$1.95 per Share
Shares held by Feltex Directors and Senior Managers	6,476,900 (4.3%)*	6,476,900 (4.4%)*
Shares held by other Shareholders	142,934,865 (95.7%)	139,164,126 (95.6%)
Total Shares on issue	149,411,765 (100%)	145,641,026 (100%)

*Assumes that only Shares acquired by Directors and Senior Managers are those outside the Offer. This percentage will be greater if Directors and Senior Managers participate in the Public Offer.

Shares to be allotted by Feltex will depend upon the Final Price. The table above illustrates the relevant number of Shares and percentages for the lowest and highest price per Share in the Indicative Price Range. In addition Feltex has implemented two Executive Share Option Plans as set out under the heading 'Executive Share Option Plans' on pages 69 and 70 of this Offer Document. If all of the options granted, or to be granted, under the Executive Share Option Plans were exercisable and were immediately exercised by Senior Management, then Feltex Directors and Senior Management would own 9.2% to 9.4% of the Shares in Feltex after the Offer closes.

TRANSFER RESTRICTIONS

Each of the Directors and Senior Management of Feltex who holds (directly or indirectly through associates) Shares on the closing of the Offer has agreed with the Joint Lead Managers that, for 12 months until 2 June 2005, those Shares may not be transferred without the prior written consent of the Joint Lead Managers, unless transferred to a related party of that Director, Senior Manager or associate who agrees to be similarly bound, or if Feltex is the subject of a successful takeover offer pursuant to the Takeovers Code.

BROKERAGE

First NZ Capital and Forsyth Barr Limited are together the Joint Lead Managers to the Offer. The Organising Participants are First NZ Capital Securities and Forsyth Barr Limited.

The Co-Managers of the Offer are ABN AMRO Craigs Limited and Macquarie Equities New Zealand Limited.

The brokerage costs and firm allocation fees associated with the Offer are:

- to the Joint Lead Managers a brokerage fee of 1.25% of the proceeds in respect of Shares allotted to NZX Firms and institutional investors and pursuant to the book build process;
- to the Joint Lead Managers a brokerage fee of 0.75% of the proceeds in respect of Shares allotted under the Enhanced Priority Offer and the Priority Offer;
- to NZX Firms, including the Organising Participants and the Co-Managers, a brokerage fee of 1.25% of the proceeds in respect of other Shares allotted pursuant to valid applications submitted by retail investors bearing their stamp;
- to NZX Firms, including the Organising Participants and the Co-Managers, a firm commitment fee of 0.5% of the proceeds in respect of Shares allotted to valid applications submitted under firm allocation bearing their stamp; and
- to institutional investors a firm commitment fee of 0.5% of the proceeds in respect of Shares allotted to institutional investors pursuant to the book build process.

Fees payable to the Joint Lead Managers and Organising Participants are detailed under the heading 'Statutory Information' on page 139 of this Offer Document, which include an incentive fee payable to the Joint Lead Managers of an amount to be determined by the Vendor (after consultation with Feltex and the Joint Lead Managers).

Feltex will pay up to \$1.75 million of these costs. The remainder will be borne by the Vendor.



UNDERWRITING

The Offer is not underwritten.

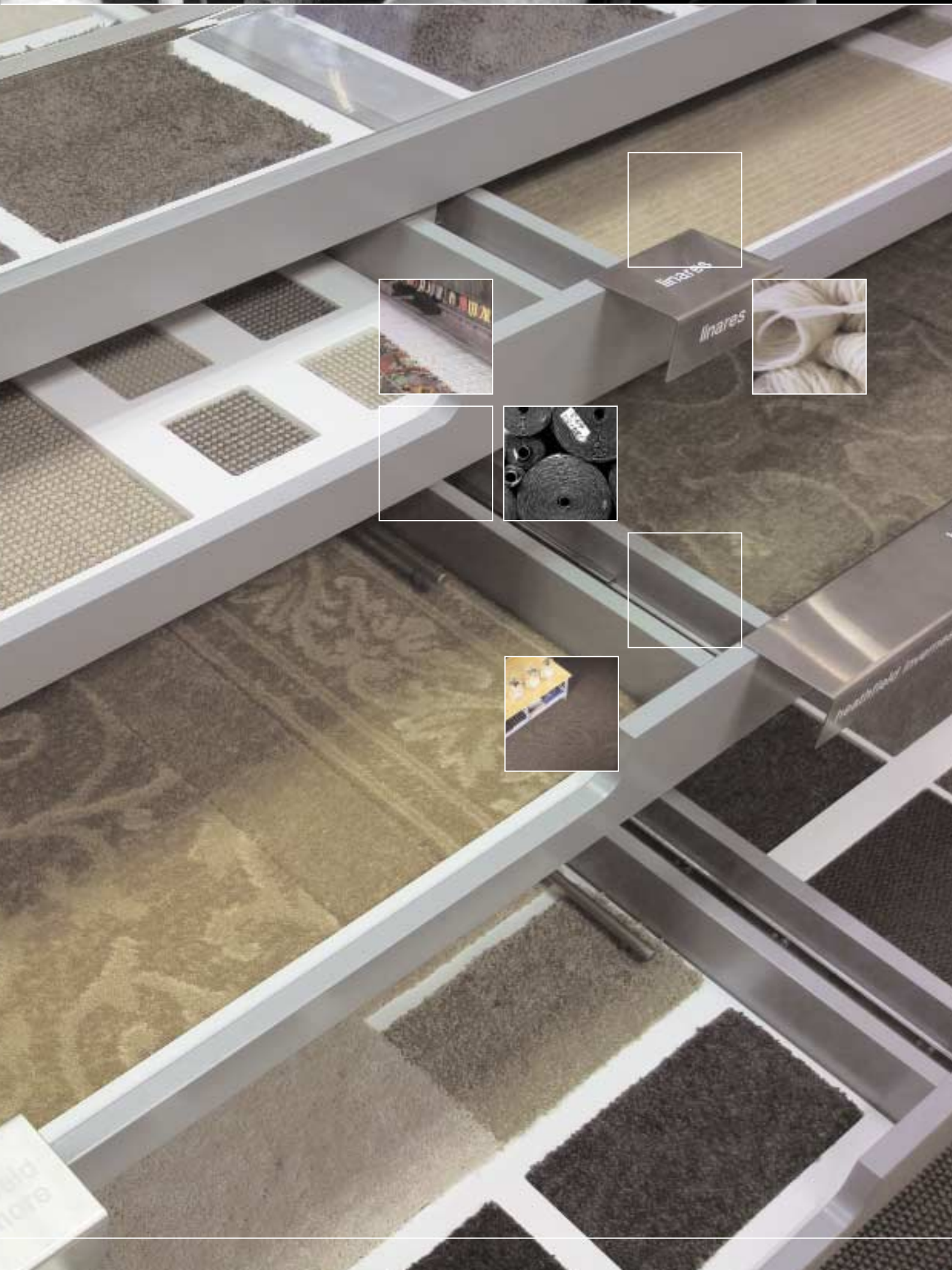
OVERSEAS INVESTORS

The Offer (excluding the Enhanced Priority Offer and the Priority Offer) is only made to members of the public in New Zealand and to institutional investors in New Zealand, Australia (being persons that do not require an Australian Prospectus under section 708 of the Corporations Act (Cth) 2001) and potentially elsewhere. The Enhanced Priority Offer and the Priority Offer are only being made to Bondholders with New Zealand addresses. No person may offer, invite, sell or deliver any Shares or distribute any documents (including this Offer Document) to any person outside New Zealand except in accordance with all of the legal requirements of the relevant jurisdiction. Unless otherwise agreed with the Vendor and Feltex, any person or entity subscribing for Shares in the Offer will, by virtue of such subscription be deemed to represent that he, she or it is not in a jurisdiction that does not permit the making of an offer or invitation of the kind contained in this Offer Document and is not acting for the account or benefit of a person within such a jurisdiction. None of the Promoter, Vendor, Feltex, the Joint Lead Managers, the Organising Participants, the Co-Managers nor any of their respective directors, officers, employees, consultants, agents, partners or advisers accepts any liability or responsibility to determine whether a person is able to participate in the Offer.

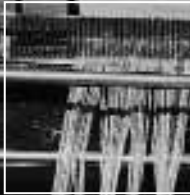
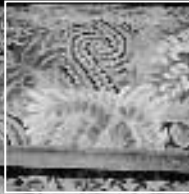
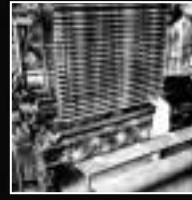
DIVIDEND REINVESTMENT PLAN

The Directors intend to implement a dividend reinvestment scheme for Feltex. Details of this scheme will be sent to Shareholders prior to the payment of the projected dividend for the year ending 30 June 2004, expected to be paid in October 2004.





New Zealand and
Australian carpet industry



HISTORY

Carpet has been manufactured in New Zealand and Australia for more than 70 years. Feltex began manufacturing carpets in New Zealand in the 1940s while the operations that today form part of Feltex began manufacturing carpets in Australia in the 1920s. Following a period of growth throughout the 1970s and 1980s, the New Zealand and Australian carpet industry has been through a period of substantial consolidation and restructuring over the past decade. One of the most significant mergers occurred when Feltex acquired Shaw Industries Australia in May 2000 to form

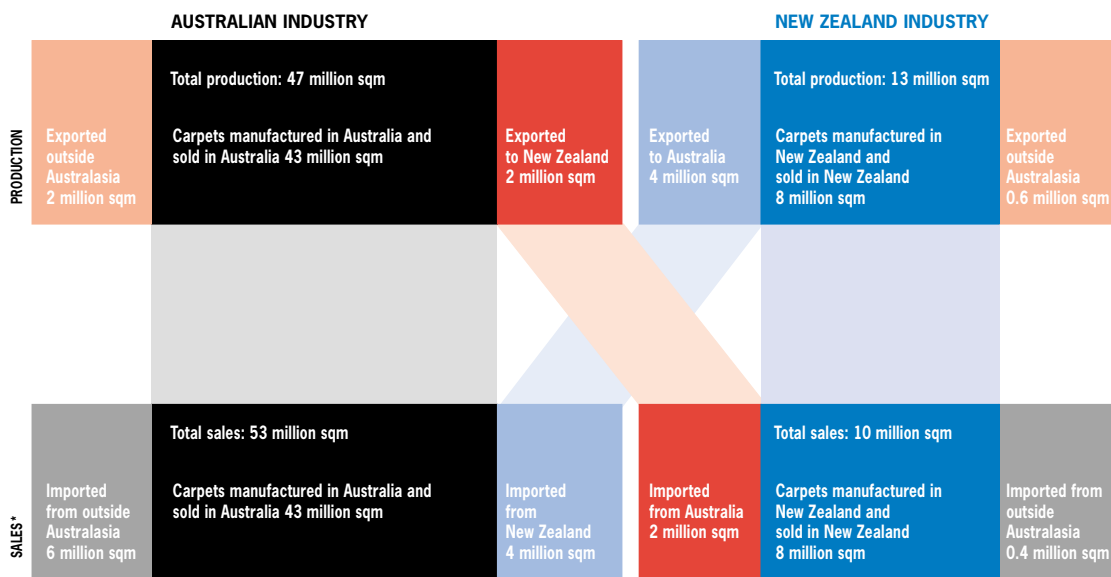
one of the two largest (by volume) carpet manufacturers in Australasia.

While there has been a reduction in the number of industry participants over the past decade, many smaller manufacturers still exist. Economies of scale and synergistic opportunities may lead to further consolidation in the industry.

CARPET PRODUCTION

Annual carpet production in the New Zealand and Australian markets currently exceeds 60 million square metres. This production can be broken down geographically as follows.

ESTIMATED TOTAL NEW ZEALAND AND AUSTRALIAN CARPET PRODUCTION AND CARPET SALES (BY VOLUME)
(Based on 12 month period ending June 2003)



*The carpet sales figures assume no inventory is held (ie product imported in this period is sold in this period)

Source: Feltex, Statistics New Zealand and Carpet Institute of Australia estimates



Of the 47 million square metres of carpet produced in Australia, Feltex estimates that approximately 2 million square metres (around 4%) of this production is exported outside Australasia. Of the 13 million square metres of carpet produced in New Zealand, Feltex estimates that approximately 0.6 million square metres (around 5%) of this production is exported outside of Australasia. Imported carpet product (from countries outside Australasia) is estimated to account for approximately 11% of total sales volume for the Australian carpet market and 4% of total sales volume for the New Zealand carpet market.

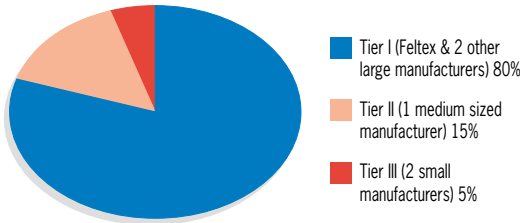
New Zealand and Australia are important producers of wool carpet on a worldwide basis, in part because of a regional preference for wool over man-made fibre carpets (particularly in New Zealand) and in part because of New Zealand's reputation for producing consistently high quality wool for carpet.

CARPET MANUFACTURING INDUSTRY PARTICIPANTS

New Zealand

Feltex is one of three large Australasian manufacturers participating in the New Zealand carpet industry. Feltex estimates that it and the two other large manufacturers have similar overall market shares of total New Zealand carpet production and collectively account for approximately 80% of the carpet manufactured in New Zealand.

ESTIMATED NEW ZEALAND CARPET MANUFACTURER MARKET SHARES (by square metres output)

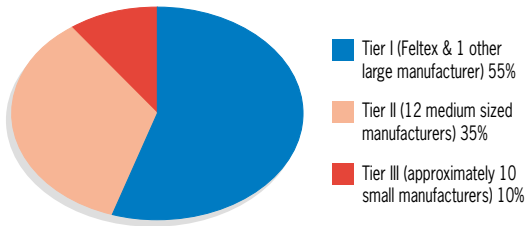


Source: Feltex Estimates & Statistics New Zealand Total Production Data

Australia

Feltex is one of the two largest manufacturers in the Australian carpet industry. Feltex estimates that it and the other large manufacturer have approximately similar overall market shares and collectively account for approximately 55% of the carpet manufactured in Australia.

ESTIMATED AUSTRALIAN CARPET MANUFACTURER MARKET SHARES (by square metres output)



Source: Feltex and Carpet Institute of Australia Estimates

Feltex is the only carpet manufacturer in Australasia that produces a full range of woven and tufted carpets and wool and man-made fibre carpets.

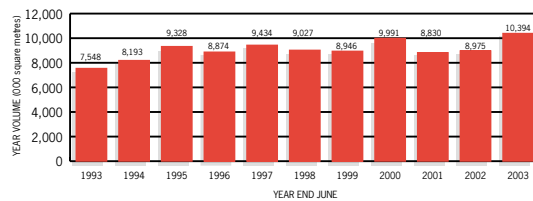
SIZE OF CARPET MARKET

The carpet market in both New Zealand and Australia is mature with long-term market trends showing only modest growth. Key trends impacting the size of the New Zealand and Australian carpet markets over the past decade include a trend towards alternative hard flooring products, offset by a trend towards increased floor areas in new residential homes.

In the period from 1993 to 2003, the average size of the New Zealand carpet market has been approximately 9 million square metres per annum and the compound average growth rate of the carpet market has been 3.3% per annum.



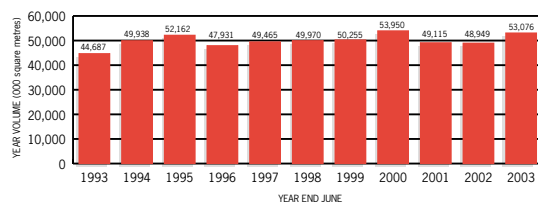
NEW ZEALAND MARKET SIZE (000 square metres)



Source: Feltex estimates

In the period from 1993 to 2003, the size of the Australian carpet market has averaged approximately 50 million square metres per annum and the compound average growth rate of the carpet market has been 1.7% per annum.

AUSTRALIAN MARKET SIZE (000 square metres)



Source: Carpet Institute of Australia

In Australia, wool carpets are estimated to account for approximately one-third of the carpet market. However, in New Zealand, wool carpets are estimated to account for approximately 80% by sales volume of the carpet market due to New Zealand consumers having a strong preference for wool.

Feltex estimates that the Australasian carpet market is split approximately 70% residential and 30% commercial. The split between the residential and commercial market segments varies modestly from year to year, primarily because of variations in the residential and commercial building and renovation cycles.

Customers in the commercial carpet market tend to be architects, specifiers, property developers and property

companies, who are focused on private sector development and refurbishment, supplemented by public sector activity. Customers in the residential carpet market are generally carpet retailers who in turn sell carpet and other products to consumers. Carpet retailers' recommendations can have a significant influence on the style and brand chosen by the consumer.

KEY FACTORS AFFECTING CARPET MARKET SIZE

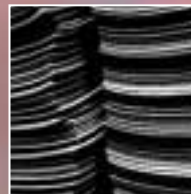
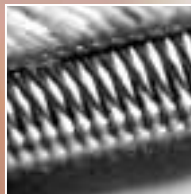
- **Building and renovation cycles:** The residential carpet market is driven by the renovation and refurbishment of existing homes and the construction of new homes. In the past, construction, renovation and refurbishment decisions have been influenced by consumer confidence. The commercial carpet market is driven by construction of new buildings and the refurbishment of existing commercial, working and leisure spaces.
- **Economic confidence:** The commercial market is influenced by the general economic climate and the willingness of owners to undertake large-scale refurbishments or renovations. Future economic confidence is also important as the lead-time from commencement of commercial construction to the installation of carpet is generally in the range of 12-18 months.
- **Home sizes:** The residential market is influenced by the trend toward larger homes with more floor space. Over the past ten years, Feltex estimates that the average floor area of new homes has increased by over 25% in both New Zealand and Australia. The increase is attributed to a trend toward open planning and greater living space.





- *Alternative flooring products:* Trends towards alternative flooring products such as timber and ceramic tiles have reduced the potential gains in the size of the carpet market. Current home designs tend toward multiple floor coverings. While this fashion trend has restricted some growth in the carpet market, a complementary trend towards keeping homes fashionable has led some consumers to replace their carpets with newer designs before the original carpet is fully worn.
- *One-off events:* The size of the carpet market can be subject to one-off events such as the construction boom preceding the Sydney Olympics that contributed to a 7% increase in the size of the Australian carpet market in 2000, the introduction of GST into Australia which contributed to a 9% decrease in the size of the Australian carpet market in 2001 and the introduction of the Australian First Home Owners Grant. These one-off events had a noticeable impact in the year they occurred and, in some cases, further impacts were felt in the years before and after the events.







Business description

INTRODUCTION

Feltex is one of the two largest carpet manufacturers in Australasia, producing in excess of 17 million square metres of carpet in the year ended June 2003. Feltex estimates its production represented over a quarter of all the carpet volume manufactured in Australasia in 2003.

Over 96% of Feltex's sales are derived from the sale of carpets. Feltex's carpet sales in dollar terms can be segmented in the following two ways:

- approximately 52% of carpet sales are wool or wool blend carpets and approximately 48% of carpet sales are man-made fibre carpets; and
- approximately 70% of carpet sales are to the residential market, with the remaining approximately 30% of sales being primarily to the commercial market (although a small amount is exported outside of the Australasian region or sold to the aircraft industry).

Feltex has manufacturing and distribution operations in New Zealand and Australia. A number of sustainable operating strategies have been successfully implemented over recent years including:

- realising an estimated \$13 million of annual synergies following the acquisition of Shaw Industries Australia in 2000, primarily through utilising excess internal wool scouring capacity in New Zealand, restructuring yarn production and reducing duplication of overheads;
- implementing lean manufacturing techniques, streamlining distribution and rationalising product stock keeping units to further increase cost efficiency and reduce working capital;
- repositioning its product mix towards the higher value and higher margin end of the product spectrum; and
- expanding its relationships with key customers and increasing customer service levels.

These operational strategies have resulted in increased operating earnings. Feltex has recently invested in new

production technology which provides it with the ability to produce the latest designs and products and better service consumers' needs and respond to changing fashions and trends. These recent changes have positioned Feltex as a responsive manufacturer of high quality carpets with an excellent platform for further earnings growth.

Feltex forecasts EBITDA to grow from \$31 million in the year ended June 2003 to \$46 million (on a pro-forma basis adjusted for one-off items) for the year ending June 2004 and projects further growth to \$52 million in the year ending June 2005. More information on Feltex's historical and prospective financial information is set out under the heading 'Financial Information' on pages 75 to 114 of this Offer Document. Feltex is currently implementing the following key initiatives to achieve this future growth:

- the introduction of new product ranges and styles to recapture and grow market share;
- application of lean manufacturing techniques to its New Zealand operations following their successful implementation in Australia;
- an increased advertising and marketing programme to further promote Feltex brand awareness and increase consumer preference; and
- ongoing investment in new styling production technology to further expand and differentiate Feltex's product range compared to its competitors.

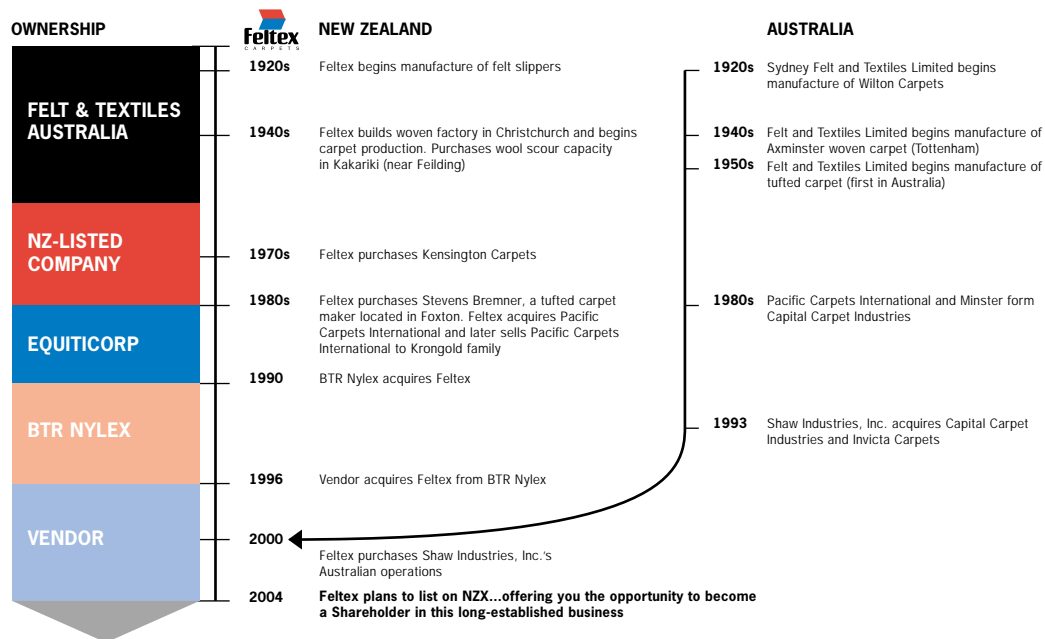
In addition, a positive outlook for carpet demand with sound residential and commercial building activity is expected to support Feltex's sales through the 2005 financial year.





FELTEX HISTORY

Feltex began operating in New Zealand in 1929 with the manufacture of felt slippers, and began producing carpets in the 1940s. Manufacturing operations that today form part of Feltex's Australian operations began production in Australia in the 1920s.



In late 1999, Shaw Industries, Inc., the world's largest carpet manufacturer, decided to exit the Australian market and in May 2000 Feltex purchased its Australian operations (Shaw Industries Australia). The acquisition transformed Feltex into an integrated Australasian business of significant scale with combined operations capable of producing in excess of 17 million square metres of carpet per annum. Feltex estimates that it is now saving in excess of \$13 million per annum on an ongoing basis from the merger of the two businesses. These cost savings have been realised through a number of initiatives, including:

- utilising excess Feltex wool scouring capacity to replace some scoured wool previously purchased by Shaw Industries Australia from other sources;
- concentrating wool yarn production in New Zealand, resulting in lower costs;

- combining the two sales teams into a smaller and more focused unit;
- focusing the marketing team on brands rather than regions, driving greater value from marketing expenditure;
- reducing administrative overheads, combining management teams and eliminating cost duplication; and
- decreasing customer response times and reducing working capital by eliminating products and inputs that overlapped between brands.

Feltex has worked to reduce its working capital requirements through a combination of a reduction in stock keeping units and the implementation of a 'lean' inventory and manufacturing management system. These changes have resulted in a reduction in working capital of approximately \$21 million for Feltex over the period from June 2000 to December 2003.

FELTEX'S PORTFOLIO OF BRANDS

Feltex's carpet is branded under eight distinct and well-known brands that target consumers with a range of budgets. The Feltex brand is extremely well recognised in New Zealand and increasingly well recognised in Australia. Feltex's Redbook and Invicta brands are two of the most recognised carpet brands in Australia.

								
BRAND DESCRIPTION	'Carpet to indulge your passion for luxury'	'Carpet designed to express quality'	'Quality to fit your designs'	'Unique elegance'	'Carpet inspired by life. Designed by Invicta'	'Kensington: Carpet that outlasts'	'Practicality and comfort never looked so good'	'Quality you can rely on'
TARGET MARKET	Top-end status seekers	Status seekers and top-end decorators	Architects, specifiers and property developers	Architects and top-end specifiers	Decorators	Casual families and comfort seekers	Families and comfort seekers	Families and comfort seekers
WOOL/ MAN-MADE FIBRE	Wool/Wool rich	Wool/Wool rich	Wool and man-made fibre	Wool	Wool/Wool rich	Wool/Wool rich	Man-made fibre	Man-made fibre

Feltex Reserve

Feltex Reserve is the premium range of residential carpets in the portfolio. This product is primarily made of select New Zealand wools. The carpets are manufactured to extremely high specifications, combining craftsmanship and innovative styling. Feltex Reserve is available exclusively to authorised Reserve retailers who are trained to understand the exceptional quality of this brand. The brand targets the very top-end of the 'status seeker' segment.

Feltex Classic

Feltex Classic is a collection of premium quality wool carpets available in a selection of colours and textures designed to express quality. The range is targeted primarily at 'status seekers' and the top-end of the home decorator market, while the brand also reaches this market via interior designers, specifiers and architects.

Feltex Classic offers contemporary designs, including plush and twist pile carpets, multi-level loops and

sisals. The Feltex Classic range has a diverse range of styles in wool rich constructions to suit a variety of tastes.

There are currently 12 Feltex Classic ranges available throughout an authorised network of over 200 retailers in New Zealand and Australia.

Feltex Commercial

Feltex Commercial offers a diverse range of carpets developed to meet the needs and special requirements of the commercial market. The Feltex Commercial range includes a broad array of in-stock lines, supplemented with the diversity of made-to-order carpets.

Feltex Woven

For more than 60 years, Feltex has been making some of the finest woven Wilton and Axminster carpets in the world.

Feltex combines traditional weaving skills with modern technology to craft a range of exceptional woven carpets, using natural New Zealand wool.

Invicta

The Invicta range of carpets incorporates both wool and wool blend products. With a wide range of textures, styles and colours, these products are highly contemporary and appeal to the home decorator market.

The Invicta Naturals range of carpets is the premium sub-brand within Invicta. This range incorporates a variety of textures, natural colours and styles.

Invicta products are sold throughout an extensive authorised retail network of over 250 Australian retailers.

Kensington

The Kensington brand contains a range of wool carpets, in a wide variety of styles, textures and colours, targeted at the family home. With a strong emphasis on performance, the Kensington products are particularly appealing to consumers seeking value for money. Kensington carpets are exclusive to the New Zealand market, and are sold through an extensive retail network of over 150 outlets throughout New Zealand.

Redbook

The Redbook brand is founded on practicality and comfort. Manufactured using quality man-made fibres, including nylon and solution dyed nylon, Redbook offers a large range of styles and colours to suit the family home. Additionally every Redbook carpet has been treated against life's spills with the added protection of stain treatment.

The Redbook range of carpets offers a variety of sub-brands. Each sub-brand has strong features and benefits for the family environment. Through an extensive authorised retailer network located in both New Zealand and Australia, Redbook is available from over 300 retailers.

Minster

Minster has a long tradition of producing carpet that has a style and colour to suit the family budget. Today,

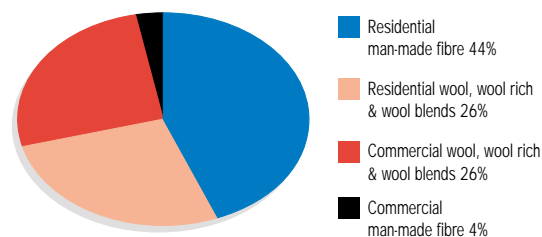
Minster is sold in New Zealand and Australia and is recognised as a strong and durable carpet produced from both nylon and the increasingly popular polypropylene fibre.

SALES AND MARKETING

Sales

Feltex sells its carpets to both the residential market (to carpet retailers who in turn sell carpets to consumers) and the commercial market (generally through architects, specifiers, property developers and property companies for use in office buildings, retail shops, hospitality, entertainment complexes, schools and new apartments) through sales teams in major cities in both New Zealand and Australia. Feltex sells the majority of its products in New Zealand and Australia but also exports carpets to other markets, mainly Asia and the United States. Feltex also sells a small amount of carpet to major airlines and sells approximately 670,000 kilograms of yarn per annum to customers, primarily located in the United States and Australia.

FELTEX FORECAST FY2004 SALES



Source: Feltex

Consumer marketing

Since 1997, Feltex has conducted consumer and retailer market research to understand both the purchase process and brand awareness of its range of carpet brands. After assessing the findings, Feltex has divided the consumer market into four major segments which are now clearly targeted by the various Feltex brands.

Feltex has used a range of consumer marketing initiatives to improve brand awareness, increase





margins and ultimately assist in improving relationships with major retailers. A significant feature of this activity has been the return to mainstream television advertising of the Feltex brand, while at the same time promoting the Redbook brand more aggressively in the New Zealand market.

This activity is supported by strong print media advertising in homemaker magazines, brand websites and internet media initiatives which further engage the consumer and promote better understanding of Feltex's products.

Marketing is supported by a strong in-store presence which includes branded point-of-sale material supported by loyalty and training programs to assist retail salespeople to proactively present Feltex's brands. This activity is strategically important because many consumer decisions are made in-store.

Feltex maintains a strong presence at trade exhibits and home shows in New Zealand and Australia. This has allowed Feltex to better understand consumer needs and present its brands to consumers considering home improvements.

Customer service

Feltex seeks to be the market leader in customer and sales service. Over the past two years, Feltex has increased its emphasis on customer support with friendly and knowledgeable representatives, on-time delivery and strong after-sales service.

Customer response to increased service has been positive, with many retailers placing a larger percentage of their total order size through Feltex. In addition, Feltex has won a number of accolades, including being named '2003 supplier of the year' by two of its major customers. Feltex is confident that its customer and sales service team is well positioned to support the requirements of its enhanced manufacturing and marketing strategies.

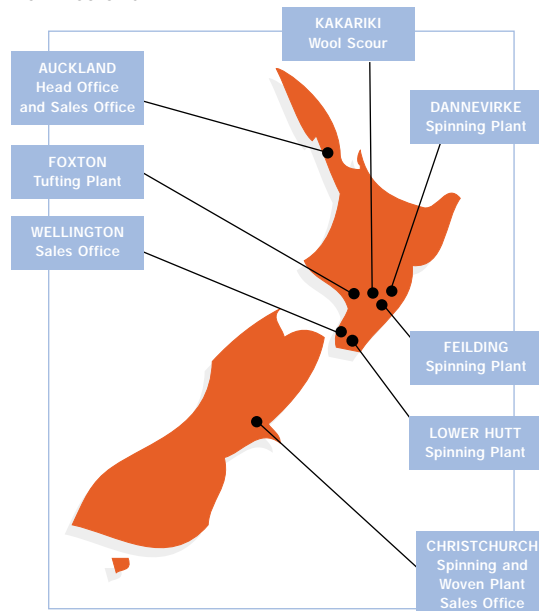
Product design

Feltex employs a team of designers that monitors and responds quickly to trends in the global carpet market. This group works closely with interior designers and architects to review and refine Feltex products to ensure they remain at the forefront of fashion trends.

MANUFACTURING AND DISTRIBUTION

The manufacturing and distribution operations of Feltex comprise a wool scouring plant, a man-made fibre extrusion operation, five spinning mills, three tufted carpet mills, a woven carpet mill and three distribution centres.

New Zealand

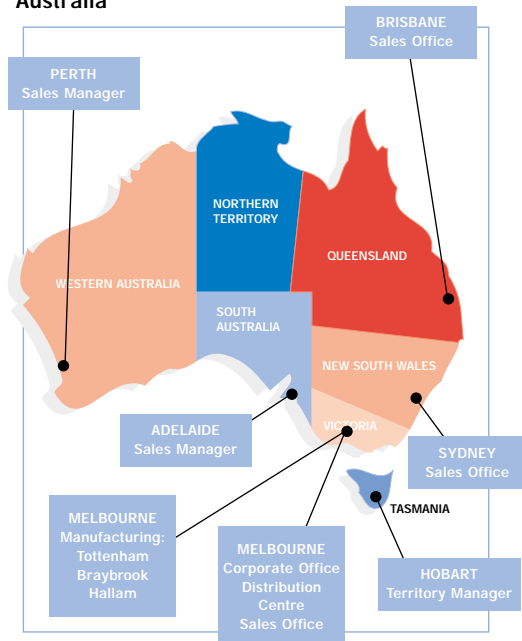


In New Zealand, Feltex produces wool yarns and manufactures tufted and woven wool carpets. As part of its continuous focus on operational improvements, during 2002 Feltex moved two of its yarn production lines from Australia to New Zealand and externally purchased a third. This restructure reduced Feltex's spinning capacity for a period of several months, but has resulted in lower production costs and is now yielding sustainable cost savings.

In addition to manufacturing carpets, Feltex scours wool in New Zealand for its own use and commission scours wool for other wool exporters. Feltex also

exports yarn made in New Zealand to its Australian production facilities and sells yarn to carpet producers outside New Zealand. Approximately 60% of Feltex's total New Zealand carpet production is exported to and sold in Australia.

Australia



In Australia, Feltex produces wool and man-made fibre and manufactures tufted wool and man-made fibre carpets.

In the last twelve months Feltex has installed a SESS Tufting Machine and a LCL Tufting Machine. These new machines are at the forefront of tufted carpet production capability, offering the maximum pattern, style and construction variation. They allow Feltex designers to create a carpet with almost any pattern to a very high degree of complexity, with a diversity of colours and depth of fibre. Carpet produced by these machines is projected to continue to contribute to Feltex's revenue and earnings growth in the year ending 30 June 2005. Initial demand for carpets produced from these machines has exceeded expectations.

Carpet Call

Feltex owns 50% of Carpet Call (Holdings) Pty Limited ('Carpet Call'), one of the best-known carpet retailers in Australia. Carpet Call operates throughout Australia

under the Carpet Call and Solomon brands.

As a consequence of the sale by the Vendor of its Shares, upon closing of the Offer the owner of the remaining 50% of Carpet Call has the option to purchase Feltex's 50% interest at market value.

As at the date of this Offer Document, the co-owner has not indicated whether it will exercise its option. Feltex believes that the market value of its interest in Carpet Call is greater than the carrying value of its interests in that entity. In Feltex's financial statements, Carpet Call is accounted for as an associate. Feltex's 50% share of Carpet Call's net earnings (after dividends paid) are accounted for on an equity basis and disclosed in the statement of financial performance below the line 'Net surplus after income tax'. Cash dividends received from Carpet Call are accounted for in operating revenue.

AN INTEGRATED MANUFACTURING PROCESS

Feltex purchases high quality raw materials to manufacture its carpets. These include high quality wool, undyed nylon, solution-dyed nylon and extruded polypropylene.

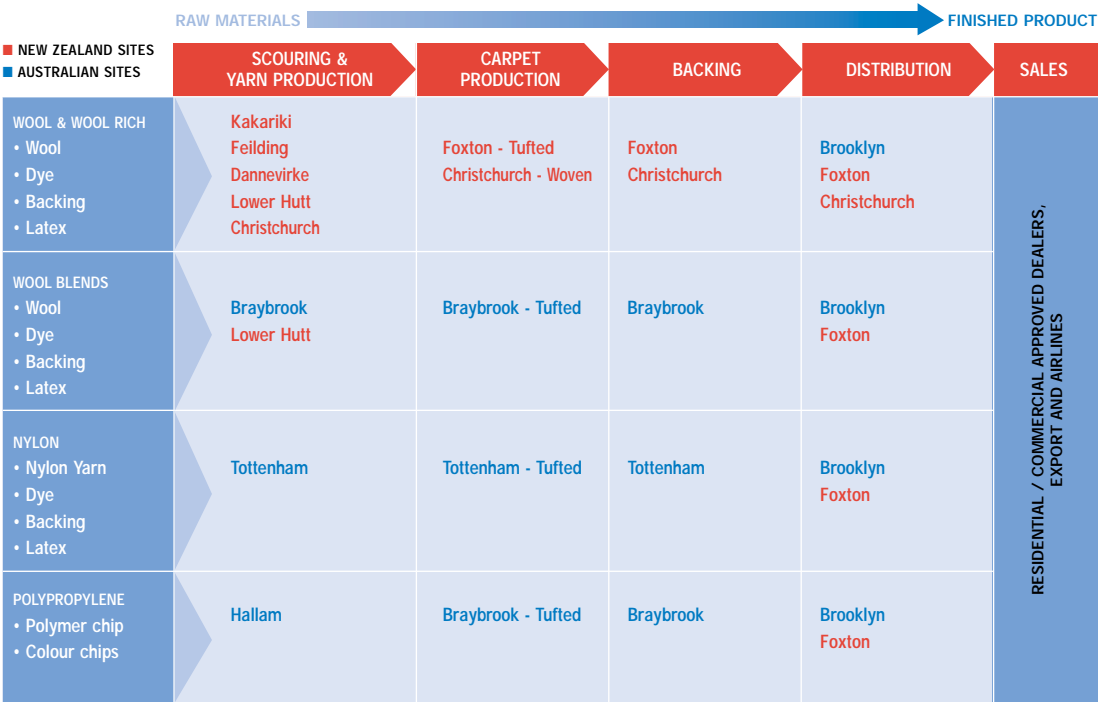
Yarn production

Yarn is produced from either wool or man-made fibres. To produce wool yarn, the wool is scoured, possibly dyed, and blended with other wool to get the best mix of fibres. The wool is then carded, to line-up the fibres in the desired manner, and spun into yarn. Two or more of these strands of yarn are then twisted together and treated to get the thickness and strength required for high quality carpet. If the wool has not been dyed previously, the yarn may be dyed at this stage in the process.

To produce man-made fibre yarn, nylon or polypropylene is heated and drawn through small holes to make a long thin fibre. Hundreds of these fibres are bunched together to make a strand of yarn. Two or more of these strands of yarn are twisted together and 'heat set' to maintain the shape and thickness of the yarn.



VERTICALLY INTEGRATED OPERATIONS



There are two primary methods of carpet manufacture, with the more common and less expensive method being tufting.

Tufted carpets



Tufted carpets are made by pushing yarn through a lightweight backing with hundreds of needles. The 'pushed through' yarn creates the carpet pile ('tufts'). Various carpet styles can be created. These include both cut pile and loop pile carpets. A latex coating is then applied to the underside to lock the tufts in position and a secondary backing is glued onto the carpet to give it extra stability.

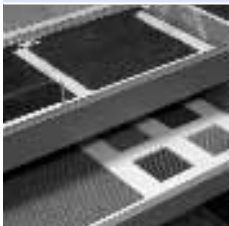
Woven carpets



Woven carpets are made through a weaving process by running carpet yarn between a series of horizontal and vertical backing yarns. These are pulled together at the same time that the carpet yarn is inserted. The yarns are interlaced to form fabric. Woven carpet designs can be very detailed and complex.

Colouration

For both tufted and woven wool carpets, the yarn is coloured before construction of the carpet. In the case of some man-made fibre carpets, white tufted carpet can be manufactured and coloured later in the manufacturing process. For some styles of carpet, Feltex uses a carpet-printing machine that allows for production of carpets with very detailed colour patterns in both traditional and geometric designs. For other man-made fibre carpets, coloured yarns are purchased.



FELTEX EMPLOYEES

Feltex has a long-serving and skilled workforce, with a strong technical base. The long tenure of many of Feltex's employees ensures that there is retention of key skills, and that knowledge and experience are shared with younger staff. Feltex's cadetship and graduate development programmes ensure that Feltex is able to produce a steady flow of young talent.

In total, Feltex employs approximately 900 people throughout New Zealand and approximately 750 people in Australia, as detailed in the following tables.

NEW ZEALAND LOCATION	PRODUCTS MANUFACTURED	STAFF as at APRIL 2004
Auckland	Head Office/Sales	38
Kakariki	Wool Scouring	47
Dannevirke	Wool Yarn	184
Lower Hutt	Wool Yarn	203
Feilding	Wool Yarn	79
Foxton	Tufted Carpet	140
Christchurch	Woven Carpet, Wool Yarn	226
Total New Zealand		917

This excludes the number of employees at the rubber underlay plant at Petone which is to close in May 2004.

AUSTRALIAN LOCATION	PRODUCTS MANUFACTURED	STAFF as at APRIL 2004
Hallam	Polypropylene Extrusion	17
Tottenham	Yarn Twisting	54
	Tufted Carpet	82
	Sales Residential & Administration	134
Braybrook	Wool Yarn	168
	Tufted Carpet	177
	After-sales Services	12
	Administration	11
	Sales - Commercial	38
Brooklyn	Distribution and Samples Centre	53
Total Australia		746

AGREEMENTS WITH SHAW INDUSTRIES, INC.

Feltex is a party to three key agreements with Shaw Industries, Inc., which were entered into at the time of the Feltex acquisition of Shaw Industries Australia. These are as follows:

- Product Representation Agreement under which Shaw Industries, Inc. appoints Feltex as its exclusive distributor for the import and sale of certain floor coverings manufactured by Shaw Industries, Inc. into Australia and New Zealand;
- Material Supply Agreement under which Shaw Industries, Inc. agrees to supply Feltex with raw materials (including extruded and processed yarns) for use in the manufacture of soft floor coverings in Australia and New Zealand; and
- Training Technology & Technical Support Agreement under which Shaw Industries, Inc. provides Feltex with training, technology, materials and technical support (including advice in relation to processing, engineering and design issues).

These agreements are strategically important to Feltex's business. Feltex enjoys a strong working relationship with Shaw Industries, Inc. and benefits from its association with the world's largest carpet manufacturer.

SIP GRANTS

Feltex has benefited from the Strategic Investment Program, an Australian Government funded scheme designed to foster the development of sustainable, competitive textile related industries in Australia. The Australian Government has announced that the program will extend to 2010. The scheme provides a cash rebate of approximately 40% of eligible capital expenditure and approximately 90% (decreasing to 80% from 1 July 2005) of eligible innovation expenditure incurred in the previous financial year. The cash rebates received by Feltex are included in operating revenue. Feltex received SIP payments of \$0.8 million in both of the financial years ended 2002 and 2003 and a further \$4.7 million in the 2004 financial year.

FELTEX STRATEGIES

Feltex has a defined set of strategies to grow sales and to continue to enhance margins and reduce costs in order to generate improved cash flows for Shareholders.

Produce high quality carpet

Feltex constantly seeks to improve the quality of its carpets. Through its association with Shaw Industries, Inc., and the monitoring of production methods outside of New Zealand and Australia, Feltex regularly updates its production methods to ensure that the highest quality carpet is being produced for each consumer price point.

Focus production to enhance margins

Feltex aims to continue to improve margins by focusing on developing sales where the greatest margin will be realised. Feltex has demonstrated a willingness to forgo sales of lower value carpets in order to shift production capacity and sales to higher value products.

Invest in production technology to build revenue

Like all industries, trends and requirements within the carpet industry change over time and Feltex has positioned the business to respond to these changes. Feltex's focused design team and its investments in new technology have enabled Feltex to build revenue from new carpet styles and designs.

Respond to a changing market

Feltex continues to focus on its core competencies and identify areas where it can respond to changes in the market to improve its profitability. For example, Feltex has recently restructured its woven carpet operations in response to a decrease in the demand for its woven carpet. This decrease in demand is in part due to advances in tufting technology and in part to the increase in the strength of the New Zealand dollar relative to the currencies of some significant export markets. In the year ending June 2004, Feltex forecasts that the one-off cost of the restructuring will

be \$2.8 million. However, Feltex projects resulting cost savings of \$3 million per annum.

In addition, Feltex decided to cease the production of rubber underlay and close its manufacturing plant in May 2004. While Feltex had previously viewed rubber underlay as a complementary product to carpet, rubber underlay products are readily available and are not a product that Feltex must offer to distinguish its service. Eliminating the rubber underlay part of the business will have no material impact on the future earnings of Feltex.

Interchange production to meet demand

Feltex manufactures a full range of carpet for sale to both residential and commercial customers in New Zealand, Australia and elsewhere. In the past, the building cycles of residential and commercial have generally been complementary, with one area picking up when the other started to slow. As Feltex is able to interchange production capacity as required by relative demand, it is well positioned to shift sales between the sectors and retain a relatively more stable sales profile.

Continue developing synergies through integration

Management continues to identify operational improvements. In the past year, production planning has been centralised, to optimise the production of the group rather than the production of a single plant. Similarly, procurement has been centralised over the past year. This will allow Feltex to strengthen its purchasing power and realise further potential savings.

Position Feltex for further industry consolidation

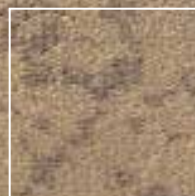
Key Feltex senior executives have been instrumental in four major carpet company mergers and restructurings over the past 18 years.

The Australasian market has several small and medium sized manufacturers. Some of these businesses are complementary to Feltex. While Feltex has no immediate acquisition plans, it is well placed to undertake acquisitions, and integrate businesses, should a suitable opportunity arise.





Directors



The Board of Directors of Feltex is responsible for setting the objectives of Feltex and the strategies for achieving these objectives. The Board of Directors also monitors the ongoing performance of Feltex and management.

The Board of Directors comprises the following individuals.



TIM SAUNDERS B.Com, MBA

Chairman

Auckland

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

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

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

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



SAM MAGILL B. Applied Science, (CIT)

Chief Executive Officer

Melbourne

Mr Magill is the Chief Executive Officer of Feltex.

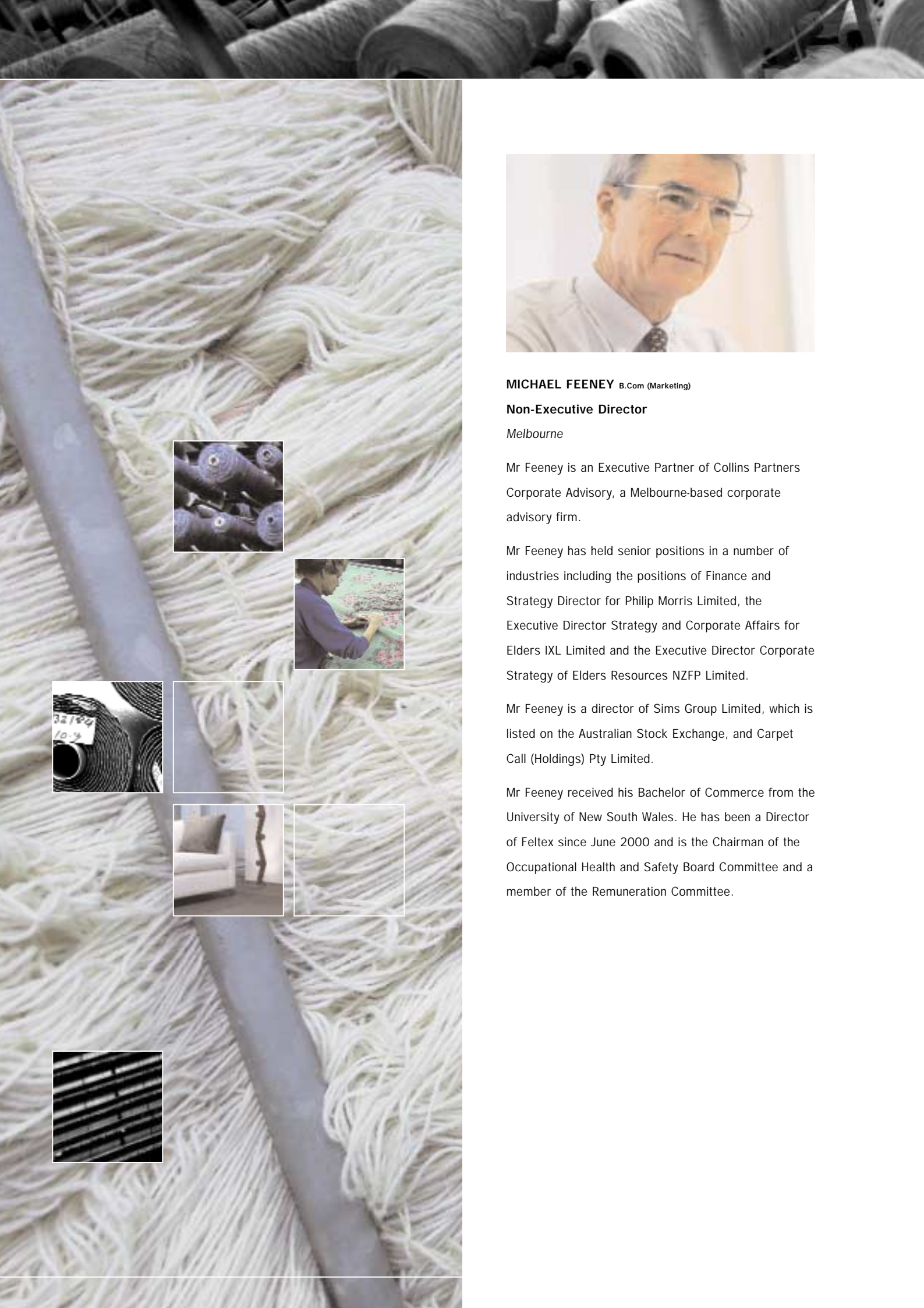
He was appointed to that position in November 2000 and was previously Managing Director of Shaw Industries Australia (now Feltex Australia Pty Limited). He has 36 years experience in the carpet industry.

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

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

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

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



MICHAEL FEENEY B.Com (Marketing)

Non-Executive Director

Melbourne

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

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

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

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


CRAIG HORROCKS LLB, MBA

Non-Executive Director
Auckland

Mr Horrocks is a specialist adviser on international technology projects through the Auckland based consulting firm Clendon Feeney MSC Limited which is the consulting arm of the law firm, Clendon Feeney. He remains a consultant to Clendon Feeney and continues to hold a New Zealand Law Society practising certificate.

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

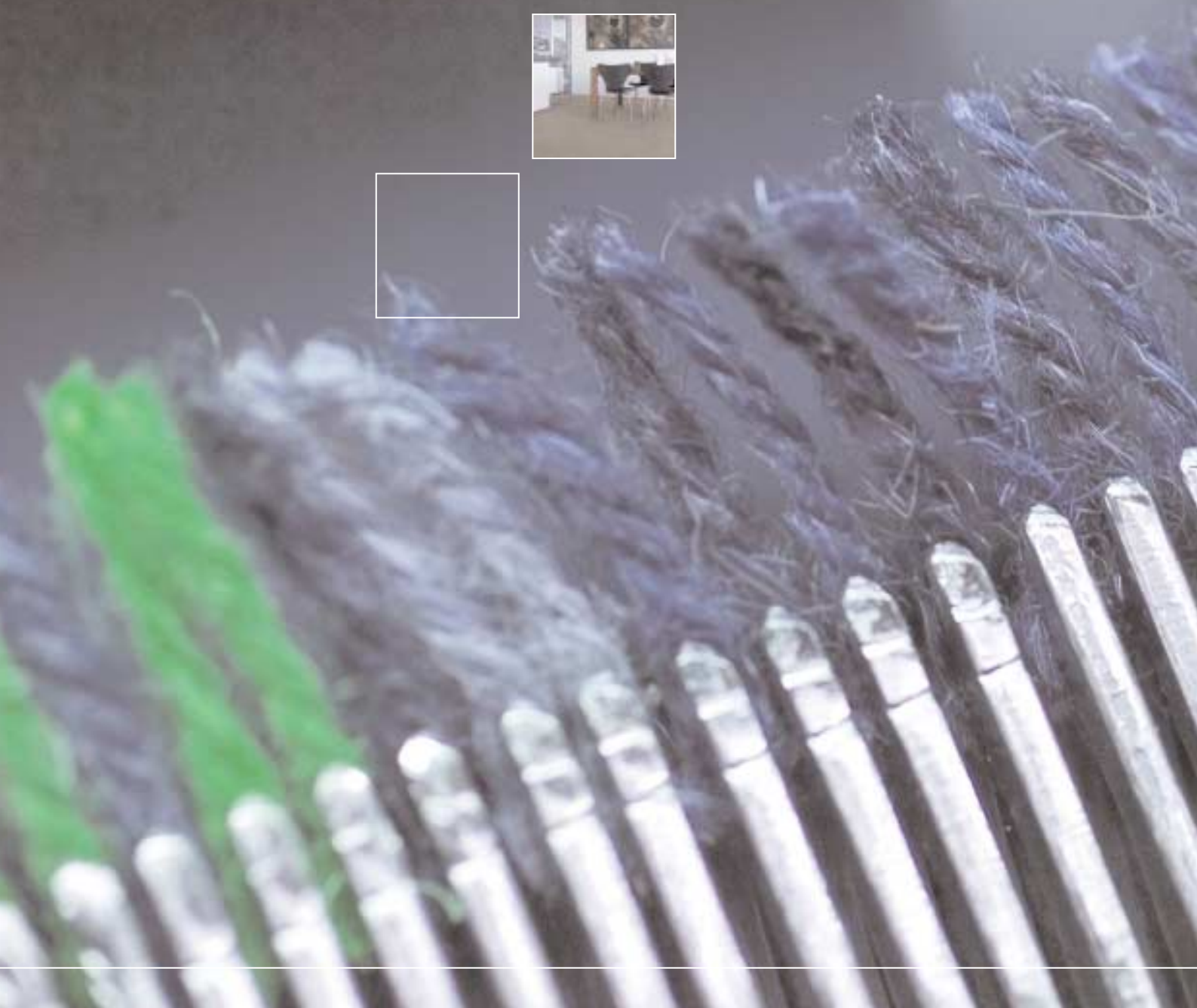
Mr Horrocks received his Bachelor of Laws from the University of Auckland, and his Master of Business Administration from the Australian Graduate School of Management. He has completed courses in logistics and systems analysis. He has been a Director of Feltex since January 1997 and is the Chairman of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


DAVID HUNTER
Non-Executive Director
Auckland

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

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






PETER THOMAS B.Com

Non-Executive Director
Melbourne

Mr Thomas is a principal in a consulting firm. Through this firm he provides services to an affiliate of Credit Suisse First Boston Private Equity, Inc. As part of these services, Mr Thomas sits on the Board of Feltex, and the Boards of Malee Sampran Public Company Limited (Thailand), Winstore Limited (Thailand), and Titan Resources NL. (Australia).

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 also a director of Bayard Capital Partners Pty Limited (Australia), Limestone Creek Holdings Limited (New Zealand), and Madowla Park Holdings Limited (Australia), and various subsidiaries of these holding companies. He is also a consultant to Pan Asian Advisors Limited (Jersey, Channel Islands, United Kingdom).

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

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


JOAN WITHERS MBA

Non-Executive Director
Auckland

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

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

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

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



CORPORATE GOVERNANCE

Role of the Board

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

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

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

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

The Board formally meets six times during the financial year and has six 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 intends to develop a Board code of ethics and a process for measuring Board performance.

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 was constituted in December 2002 and meets quarterly.

Finance Committee

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

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.

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 meets quarterly.

DIRECTORS' INTERESTS

Directors' remuneration

Non-executive Directors are paid an annual fee for their service on the Board and Board Committees. Each Director (except the Chairman of the Audit and Risk Management Committee) sits on at least two Board Committees. Commencing in the 2005 financial year, the annual fee payable to non-executive Directors will be \$80,000. The Chairman will receive an annual fee of \$140,000. The maximum aggregate sum of fees for Directors will be approved by Shareholders from time to time. The current approved maximum aggregate sum is \$540,000 per annum.

From 1 July 2005, each non-executive Director (including the Chairman) will apply 20% of their annual fee (after tax) to the purchase of Feltex Shares ('Director Shares'). The amount of a Director's 'after-tax' fee will be calculated based on the assumption that the non-executive Director has paid the top personal marginal tax rate in his or her country of residence in respect of his or her annual fee.

Each non-executive Director will be required to confirm to the Chairman that he or she has purchased the required amount of Director Shares each year. Director Shares purchased by a non-executive Director must be held until the non-executive Director retires as a Director of Feltex.

The number of Director Shares that must be purchased each year is not reduced by any number of other Feltex Shares owned by or otherwise purchased by Directors.

Existing option arrangements

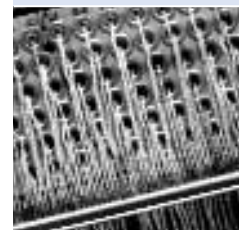
Existing option arrangements between the Vendor and Directors (and also between the Vendor and certain Senior Managers) will either be purchased or cancelled for cash or converted into Shares on the successful closing of the Offer.

Directors' shareholdings

Conditional on the closing of the Offer, a minimum of 1,724,297 Shares will be acquired (directly or indirectly through associates) by the non-executive Directors (except for Ms. Joan Withers) from the Vendor for consideration equal to the Retail Price.

These non-executive Directors have been Participants in a long term equity incentive plan ('the Plan') with the Vendor. The Plan is realisable in the event of a trade sale or IPO of Feltex. Pursuant to the Plan, these non-executive Directors can receive from the Vendor proceeds which will exceed the cost of the Shares that each non-executive Director will acquire from the Vendor. Therefore, the Shares to be acquired by these non-executive Directors will be purchased from the acquiror's own cash resources or from the proceeds received from the realisation of the Plan, or, alternatively, the consideration for the Shares may be satisfied by conversion of rights under the Plan. The non-executive Directors involved will (directly or indirectly through associates) collectively acquire Shares equal to approximately 75% of the benefit received by them, collectively, from the Plan.

Each non-executive Director has agreed (directly or indirectly through associates) with the Joint Lead Managers that, for 12 months until 2 June 2005, these Shares may not be transferred without the prior written consent of the Joint Lead Managers, unless transferred to a related party of that Director who agrees to be similarly bound, or if Feltex is the subject of a successful takeover offer pursuant to the Takeovers Code.



Conditional on the closing of the Offer, the minimum shareholding interests of each non-executive Director as at 2 June 2004 will be as follows:

NON-EXECUTIVE DIRECTOR	NO. OF SHARES
Michael Feeney	221,481
Craig Horrocks	258,395
David Hunter	221,481
Tim Saunders	500,000
Peter Thomas	522,940
Joan Withers	Nil

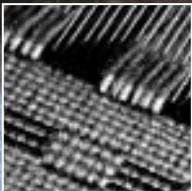
Sam Magill is an executive Director. Conditional on closing of the Offer, he will hold (directly or indirectly through associates) a minimum of 2,460,895 Shares.

He has agreed with the Joint Lead Managers that, for 12 months until 2 June 2005, these Shares may not be transferred without the prior written consent of the Joint Lead Managers, except to a related party of Sam Magill, provided the related party agrees to be similarly bound to the transfer restriction or if Feltex is the subject of a successful takeover offer pursuant to the Takeovers Code.

Sam Magill will also receive 1,812,500 Options under the Offer in accordance with the terms of Executive Share Option Plan A, details of which are set out at page 69 of this Offer Document.

In accordance with the provisions of contracts entered into by Peter Thomas while he was an employee of Credit Suisse First Boston, Mr Thomas will also receive an incentive-based fee following the successful completion of the Offer. Mr Thomas is also a partner in a limited partnership which is a partner of the Vendor, and accordingly has an entitlement to part of the proceeds of the sale of the Vendor's Shares pursuant to the Offer.





Feltex Management

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

SAM MAGILL Chief Executive Officer (Age 58)

See details under 'Directors' section on page 53 of this Offer Document.

JOHN KOKIC Chief Operating Officer (Age 53)

John joined Feltex in 1980 as operations accountant. Since joining Feltex, John has acted in various roles including as General Manager Finance from 1989 to 2003. In July 2003, due to his extensive experience in the industry, John was named Chief Operating Officer, taking on responsibility for all of Feltex's manufacturing operations.

Prior to joining Feltex, John worked for Felt & Textiles which owned and operated Feltex Carpets until the late 1960s. Felt & Textiles owned and operated a vinyl tile (hard flooring) operation and he was Cost Accountant and then Financial Controller of that operation during the 1970s.

John has over 30 years experience in the flooring industry and is a graduate of Victoria University, Melbourne (formerly Footscray Institute of Technology) with a Diploma of Business Studies (Accounting) and is a member of CPA Australia.

DES TOLAN Chief Financial Officer (Age 39)

Des joined Feltex in August 2000 and was promoted to his current role in July 2003. In this role, Des has responsibility for capital management, financial control and reporting and the development of Feltex's strategic plan. Before assuming his current role, Des served as Feltex's Group Financial Controller and Financial Controller New Zealand Manufacturing.

Prior to joining Feltex, Des was an audit manager with Deloitte and Touche in South Africa and held various financial and operational roles in the manufacturing sector.

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 and has completed postgraduate studies in Australian tax and company law.

Des is a member of the Institute of Chartered Accountants of New Zealand.


IAN BARBOUR General Manager Operations New Zealand (Age 52)

Ian joined a subsidiary of Feltex in 1978 holding various senior management positions prior to his promotion to Manager of Feltex Tufted Carpets Mill in Foxton in 1987. Ian has expanded his responsibilities over the years and assumed his current role in 1997 managing all of Feltex's New Zealand manufacturing operations. While at Feltex, Ian has led a number of key manufacturing initiatives, initially completing the rationalisation and consolidation of Feltex carpet manufacturing operations post import licensing and major tariff elimination. In addition he has ensured Feltex has been a leader in obtaining ISO quality and environmental accreditations and more recently has championed various innovative training and up-skilling initiatives.

Prior to joining Feltex, Ian spent 10 years in the architectural and construction industry in Dunedin, New Zealand.

In 2002 Ian was awarded an honorary Diploma in Textiles in recognition of his contribution to the industry especially related to training and up-skilling initiatives. Ian is currently the Chairperson of the industry development organisation, Textiles NZ and is a board





member of the regional economic development agency for Horowhenua and Kapiti.

PETER DE FONTENAY General Manager

Business Systems (Age 42)

Peter joined Feltex in 2003 in his current position. Since joining Feltex, Peter has overseen the development of the Feltex B2B (business to business) capability, streamlined the information reporting procedures and implemented a 'service first' approach to Feltex IT.

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 has extensive business systems experience having implemented e-commerce initiatives, IT rationalisation programmes, and enterprise resource planning systems. Much of this experience was gained in his role as Divisional Information Technology Manager of National Dairies Limited.

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 (Age 50)

Neville joined Shaw Industries Australia in 1996 as the Plant Manager for Braybrook operations. 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. In this role, Neville developed and implemented production-streaming methodology that is credited with substantially improving equipment utilisation rates and inventory turnover.

Neville has 33 years experience in the textile industry, starting when he was 17 as an Apprentice Worsted Yarn Technician with Valley Mills. He was promoted to his

first management position three years later, when he took responsibility for the Valley Mills spinning and finishing department.

During his 33 years in the industry, Neville has developed expertise in all aspects of carpet manufacturing through positions such as Carding, Spinning and Weaving Troubleshooter, Tufting Mechanic, Tufting Production Manager, Purchasing Manager, Product Development Manager and Operations Manager.

Neville holds a Certificate in Textile Technology, Management and Engineering, and has completed further studies in Textile Mechanics and Manufacturing Accounting.

ZORAN JOVANOVSKI General Manager

Residential Marketing (Age 35)

Zoran joined Shaw Industries Australia in August 1997 and held a variety of positions including Brand Manager, Merchandising Manager and Marketing Manager.

Following the acquisition of Shaw Industries Australia by Feltex in 2000, Zoran was promoted to the newly created role of General Manager Residential Marketing and now oversees the development and implementation of all consumer and retailer-related brand activity, along with ultimate responsibility for residential product design and development. Since joining Feltex, Zoran has overseen the introduction of products from the new LCL Tufting Machine, significant reduction in the stock keeping units held by Feltex and the introduction of synthetic soft yarn systems, now developing a niche in the market.

Prior to joining Feltex, Zoran worked for Mobil Oil Limited, where he had roles in territory management, strategic marketing planning and franchise management.

Zoran holds a Bachelor of Business from the Swinburne Institute of Technology (Hawthorn Campus).

ROD LYONS General Manager
Residential Sales (Age 54)

Rod joined Pacific Carpets International in 1978 as Victorian Sales Manager of the Redbook division. In 1980, Rod was promoted to State Manager for Victoria and 18 months later was promoted to National Sales Manager Redbook Carpets. When Minster Carpets purchased Redbook, Rod was appointed National Sales Manager of Redbook and Minster man-made fibre divisions.

Following the purchase by Shaw Industries Australia of the Redbook, Minster and Invicta brands, Rod was appointed National Sales Manager - Residential, where he took additional responsibility for a significant and varied range of wool carpet products. Rod assumed his current position following the acquisition of Shaw Industries Australia by Feltex in 2000.

Throughout his tenure, Rod has been instrumental in introducing trends in product design and yarn construction into the regional market, as well as developing Feltex's sales model for incentives, commissions and sales force development.

Rod has 33 years of sales experience. Prior to working in the carpet industry, Rod was Branch Manager of Ramset Fasteners, a division of Siddons Industries Limited.

He has completed several sales management courses, leadership and personal development courses.

WENDY MCCARRISON-WILSON General Manager
Commercial Sales and Marketing (Age 43)

Wendy joined Feltex in 1988 and has 16 years experience in the carpet industry, all of them with Feltex.

She represents Feltex on the Executive Committee of the National Flooring Association of New Zealand.

Wendy has had various sales and marketing roles within Feltex and now manages the Commercial Sales and Marketing teams in both New Zealand and Australia and an international team responsible for all export and aircraft sales and marketing. These teams have

successful records in securing high profile commercial flooring contracts.

JOHN SHACKLETON General Manager Distribution & Customer Services (Age 57)

John joined Minster (now part of Feltex) in 1989 as National Commercial Sales Manager, and was promoted to his current position in April 2002. John has managed a number of integration assignments, including the consolidation of the Australian warehouses and the establishment of a single Feltex-wide call centre. He is currently implementing an organisational restructure to establish total supply chain responsibility.

John started his career in the United Kingdom carpet industry in 1966, and has experience in all areas of yarn and carpet manufacture, technical support and raw material supply as well as warehousing and distribution. He has held positions with several companies in the wider carpet industry, including John Crossley, Pacific Carpets International, Hycraft Carpets and Alexander Watt. John developed major project management experience as the project manager for installation and commissioning of the Zimmer printer and associated equipment at Pacific Carpets International and again for the Kuster dyeline at Hycraft Carpets.

John holds a Graduate Diploma in Carpet Technology from Kidderminster College and trade diplomas from City & Guilds.

CHARLES VAN HEERDEN General Manager
Human Resources (Age 45)

Charles joined Feltex in 1999 as Human Resources Manager for Feltex New Zealand and was appointed to his current position in July 2000. In this role, Charles has been instrumental in creating a set of core values and implementing integration projects across Feltex. Charles has also established key human resource strategies including performance management systems, incentive plans, 360° feedback, succession planning, leadership development, cadetship programmes and learning centres.





Prior to joining Feltex, Charles was General Manager of Change Management Consulting International, where he specialised in large scale organisational change projects across a number of industries. Charles has more than twenty years of international experience in senior human resource management roles in Australia, New Zealand and South Africa, across several industries.

Charles graduated from the University of Pretoria with a BA in Psychology, followed by an Honours degree in Industrial Relations (Cum Laude) from the Rand Afrikaans University. In addition to various professional training seminars, he completed a diploma in Human Resources Management. Over the last ten years he has published various articles on leadership and change management in Australia and New Zealand and authored chapters in two books, as well as being a regular speaker at various public seminars. Charles is a member of the Human Resources Institute of New Zealand.







CARPETMAKER TO THE WORLD



Executive Share Option Plans



Classic

Trento

Thermally stable, heavy-duty carpet with a plush, textured surface.

The ultimate in comfort and style, featuring a plush, textured surface.

Feature	Benefit
Thermally Stable	Resists fading and discoloration, even in high-traffic areas.
Heavy-Duty	Resists wear and tear, even in high-traffic areas.
Plush, Textured Surface	Provides a soft, comfortable feel underfoot.
Easy to Clean	Resists stains and dirt, making it easy to maintain.
Long-Lasting	Provides a long, lasting life, even in high-traffic areas.

EXECUTIVE SHARE OPTION PLANS

Feltex has established two new share option plans for Feltex executives. The plans provide a long-term incentive for those eligible executives. Both share option plans involve the granting of options to the executives to acquire Shares. Options are granted at no charge. However upon the exercise of such options, eligible executives must pay the applicable exercise price. Summary details of the two share option plans are outlined below.

Option Plan A

Feltex has established Option Plan A, effective from and conditional on the closing of the Offer, for Sam Magill (Chief Executive Officer), John Kovic (Chief Operating Officer) and Des Tolan (Chief Financial Officer) ('Plan A Executives').

Under Option Plan A, the Remuneration Committee of the Board has granted options ('Plan A Options') to the Plan A Executives to subscribe for Shares.

A total of 3.625 million Plan A Options have been granted under the Option Plan A, conditional on the closing of the Offer.

Each Plan A Option entitles the holder to subscribe for one Share. The initial exercise price per Share will be the Final Price determined under the Offer. The exercise price will be reduced during the term of the Plan A Options by an amount equal to the amount of any cash dividend declared by Feltex in respect of its Shares following the Offer, provided that the exercise price can never be less than one cent.

Except in the case of a change of control of Feltex (or if Feltex considers an early exercise to be necessary following a capital reconstruction), the Plan A Options cannot be exercised before the first trading window following 4 June 2006 and all unexercised Plan A Options lapse at the end of the first trading window following 4 June 2010.

Plan A Options are able to be exercised prior to 4 June 2006 in the event of a change of control of Feltex. A change of control occurs if, following the Offer, any person (or group of persons acting in concert) acquires or becomes contractually bound to acquire not less than 50.1% of the Shares on issue.

Feltex may make adjustments to the Plan A Options to reflect any capital reconstruction occurring after the Offer.

Option Plan B

Feltex has established Option Plan B, effective from and conditional on the closing of the Offer for all senior managers ('Plan B Executives') holding a position in Feltex of 'General Manager' (or its equivalent as determined by the Board) but excluding the Plan A Executives.

Details of Feltex's current senior managers who hold a position of General Manager or above are set out on pages 63 to 66 under the heading 'Feltex Management' of this Offer Document.

Under Option Plan B, the Remuneration Committee of the Board may grant options ('Plan B Options') to the Plan B Executives to subscribe for Shares.

The maximum aggregate number of Plan B Options that may be granted under Option Plan B is 4.35 million, conditional on the closing of the Offer. The number of Plan B Options granted to each Plan B Executive have been or will be determined by the Board based on the recommendations of the Chief Executive Officer and the Remuneration Committee.

A total of 3.625 million Plan B Options have been granted to Plan B Executives. The remaining Plan B Options may be granted to Plan B Executives following the Offer.

Each Plan B Option entitles the holder to subscribe for one Share in Feltex. The initial exercise price for a Plan B Option depends on the time that it is granted.





The initial exercise price for Plan B Options granted prior to the closing of the Offer will be the Final Price determined under the Offer.

Plan B Options granted following the Offer will have an initial exercise price equal to the volume weighted average trading price of Shares over the ten trading days prior to the date on which the Plan B Options are granted.

The exercise price for all Plan B Options will be adjusted during the term of the Plan B Options as follows:

- (a) The exercise price will reduce by an amount equal to the amount of any cash dividend declared by Feltex in respect of the Shares following the Offer; and
- (b) The exercise price will increase by the weighted average cost of capital of Feltex as determined by an independent expert appointed by the Board. The weighted average cost of capital and the adjusted exercise price will be calculated by the independent expert on a six monthly basis following the release of Feltex's annual and half yearly results ('WCC Adjustment Date').

Any Plan B Options granted at any time following the Offer will, for the purposes of calculating an adjusted exercise price to take into account the weighted average cost of capital, be deemed to have been granted on the immediately preceding WCC Adjustment Date.

Except as described below, Plan B Options granted to a Plan B Executive cannot be exercised earlier than the first trading window following the date that is three years after the date on which the Plan B Options were offered. All Plan B Options lapse at the end of the first trading window following the date that is five years after the date of offer of the options.

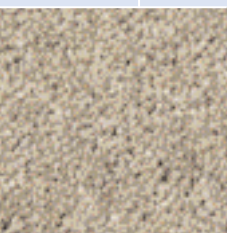
Where a Plan B Executive's employment with Feltex is terminated, the following vesting conditions will apply to any options that have not yet vested:

- (a) In the case of death, disability, or special circumstances determined by the Board, all Plan B Options held by that Plan B Executive will vest.
- (b) Where the Plan B Executive resigns or their employment is terminated by Feltex for cause, all Plan B Options will lapse.
- (c) Where employment is terminated but neither (a) or (b) applies, then one-third of the Plan B Executive's unvested Plan B Options will vest for each year (or part thereof) in which the Plan B Executive has been employed by Feltex following the offer of the Plan B Options and all Plan B Options which do not vest will immediately lapse.

Plan B Executives who leave employment after Plan B Options have vested must exercise those Plan B Options no earlier than the next trading window established by Feltex's Executive Share Trading Protocol and no later than six months after leaving Feltex.

All Plan B Options vest early in the event of a change of control of Feltex following the Offer but prior to the normal vesting date. A change of control occurs if, following the Offer, any person (or group of persons acting in concert) acquires or becomes contractually bound to acquire not less than 50.1% of Shares on issue.

Feltex may make adjustments to the Plan B Options to reflect any capital reconstruction occurring after the Offer.





Overview of the Vendor and Promoter



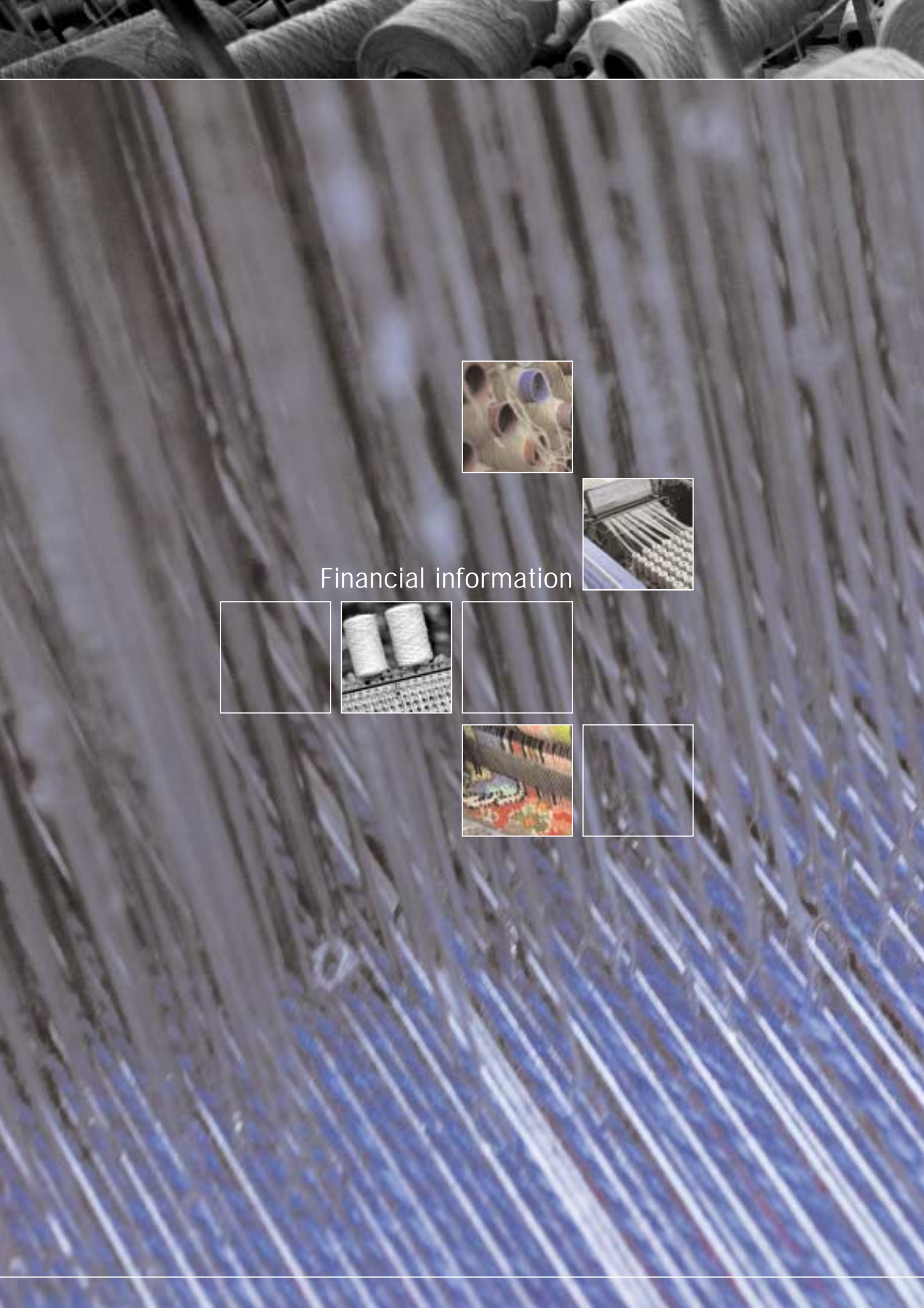
The Vendor and the Promoter are members of the group of companies which operate the private equity business of Credit Suisse Group under the trading name Credit Suisse First Boston Private Equity. CSFB IGP, the ultimate general partner of the Vendor, is a wholly-owned subsidiary of Credit Suisse Group.

Credit Suisse Group is a Switzerland based financial institution with operations throughout the world. Founded in 1856, Credit Suisse Group operates in over 50 countries with more than 60,000 employees.

Credit Suisse First Boston Private Equity is a private equity manager with more than US\$29 billion in committed capital. Credit Suisse First Boston Private Equity is comprised of investment funds that focus on United States of America and international leveraged buyouts, structured equity investments, mezzanine investments, real estate investments, venture capital and growth capital investments, and investments in other private equity funds.

The Vendor, Feltex and every person acting on behalf of the them are exempt, subject to certain conditions, from regulations 3(1) and 7A(1) of the Regulations insofar as those provisions would require this Offer Document to contain information about the Vendor as an issuer of the Shares.





Financial information



This section of the Offer Document sets out financial information applicable to Feltex.

The prospective financial information consists of forecast financial information for the year ending June 2004 and projected financial information for the year ending June 2005. The forecast financial information should be read in light of the assumptions set out under the heading 'Principal Assumptions underlying the Forecasts' on pages 88 to 90 of this Offer Document. The projected financial information should be read in light of the assumptions set out under the heading 'Principal Assumptions underlying the Projections' on pages 90 to 92 of this Offer Document.

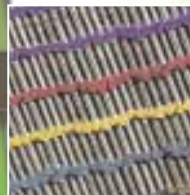
Although due care has been taken in preparing the prospective financial information none of the Vendor, the Promoter, Feltex or their respective directors can provide assurance that the prospective financial information will be achieved. Actual results may vary from the prospective financial information due to the non-occurrence of anticipated events or the occurrence of unanticipated events and any variations may be material. Applicants for Shares should also refer to the heading 'What are my risks?' on pages 125 to 130 of this Offer Document, including the paragraph on 'Forward-looking statements' on pages 129 and 130 of this Offer Document.

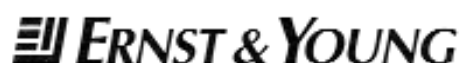
This section of the Offer Document sets out financial information applicable to Feltex.

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Auditor's report





5 May 2004
 The Directors
 Feltex Carpets Limited
 Feltex Centre
 Level 7, 145 Symonds Street
 AUCKLAND

Dear Directors

This report is issued in respect of the public offer of \$50 million of its shares (**Shares**) by Feltex Carpets Limited (**the Company**) and 113,523,100 Shares by Credit Suisse First Boston Asian Merchant Partners, L.P. in terms of the combined Investment Statement and Prospectus (**Offer Document**) to be dated Wednesday, 5 May 2004.

Directors' responsibilities

The Directors are responsible for the preparation and presentation of:

- (a) (i) annual financial statements as required by clauses 23 to 38 of the First Schedule to the Securities Regulations 1983 (the **First Schedule**). The annual financial statements provide information about the past financial performance and cash flows of the Company and its subsidiaries (the **Group**) for the year ended 30 June 2003 and the Group's financial position as at that date; and
- (ii) interim financial statements in accordance with the First Schedule for the six months ended 31 December 2003; and
- (b) the summary of financial statements of the Group for the periods ended 31 December 2003, 30 June 2003, 30 June 2002, 30 June 2001, 30 June 2000 and 31 July 1999 as required by clauses 8(2) and 8(3) of the First Schedule; and

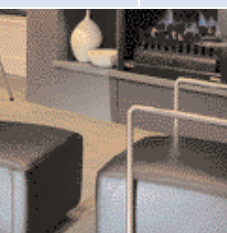
- (c) the forecasts of the Group for the year ending 30 June 2004 and the projections of the Group for the year ending 30 June 2005, including the assumptions on which the forecasts and projections are based, as required by clause 10 of the First Schedule.

Auditor's responsibilities

We are responsible for:

- (a) expressing an independent opinion on the financial statements of the Group as at 30 June 2003 and 31 December 2003 and for the periods ended on those dates, prepared and presented by the directors, and reporting our opinion in accordance with clause 42(1) of the First Schedule;
- (b) reporting, in accordance with clause 42(1)(g) of the First Schedule, on the amounts included in the summary of financial statements;
- (c) reporting, in accordance with clause 42(2) of the First Schedule, on the forecasts for the year ending 30 June 2004 and the projections for the year ending 30 June 2005.

This report has been prepared for inclusion in the Offer Document for the purpose of meeting the requirements of clause 42 of the First Schedule. We disclaim any assumption of responsibility for reliance on this report or the amounts included in the financial statements, the summary of financial statements, or the forecasts for



the year ending 30 June 2004 and projections for the year ending 30 June 2005, or for any other purpose other than that for which they were prepared. In addition, we take no responsibility for, nor do we report on, any part of the Offer Document not mentioned in this report.

Ernst & Young Limited provides taxation advice to the Company and Group.

Basis of opinion

Our audit of financial statements for the year ended 30 June 2003 and six months ended 31 December 2003 included examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also included assessing:

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

We have 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 the information in the financial statements.

We have also undertaken procedures to provide reasonable assurance that the amounts in the summary of financial statements, pursuant to clauses 8(2) and 8(3) of the First Schedule, have been correctly taken from audited financial statements.

In addition, we have examined the forecasts for the year ending 30 June 2004 and projections for the year ending 30 June 2005 to confirm that, so far as the

accounting policies and calculations are concerned, they have been properly compiled on the footing of the assumptions made or adopted by the directors of the Group and are presented on a basis consistent with the accounting policies normally adopted by the Group. The assumptions relate to future events. We are not in a position to, and do not express an opinion on, these assumptions on a stand alone basis.

Unqualified opinion

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

In our opinion:

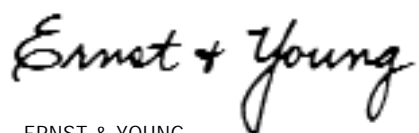
- (a) proper accounting records have been kept by the Group as far as appears from our examination of those records;
- (b) the financial statements on pages 96 to 114 of this Offer Document that are required by clauses 23 to 38 of the First Schedule, and that are required to be audited:
 - (i) comply with the Securities Regulations 1983;
 - (ii) subject to those regulations, comply with generally accepted accounting practice in New Zealand; and
 - (iii) give a true and fair view of the state of affairs of the Group as at 30 June 2003 and of the results and cash flows of the Group for the year ended on that date;
- (c) the interim financial statements on pages 96 to 114 of this Offer Document:
 - (i) comply with the Securities Regulations 1983;
 - (ii) subject to those regulations, comply with generally accepted accounting practice in New Zealand; and
 - (iii) give a true and fair view of the state of affairs of the Group as at 31 December 2003 and of the results and cash flows of the Group for the period ended on that date;

- (d) the amounts in the summary of financial statements, on page 93 of this Offer Document, pursuant to clauses 8(2) and 8(3) of the First Schedule, have been correctly taken from audited financial statements of the Group for the periods ended 31 December 2003, 30 June 2003, 30 June 2002, 30 June 2001, 30 June 2000 and 31 July 1999; and
- (e) the forecasts for the year ending 30 June 2004 and projections for the year ending 30 June 2005 on pages 85 to 87 of this Offer Document, so far as the accounting policies and calculations are concerned, have been properly compiled on the footing of the assumptions made or adopted by the directors of the Group set out on pages 88 to 92 of this Offer Document and are presented on a basis consistent with the accounting policies normally adopted by the Group.

Actual results are likely to be different from the forecast and projected financial information since anticipated events frequently do not occur as expected and the variation could be material. Accordingly we express no opinion as to whether the forecasts for the year ending 30 June 2004 and projections for the year ending 30 June 2005 will be achieved.

We completed our work for the purposes of this report on 5 May 2004 and our unqualified opinion is expressed as at that date.

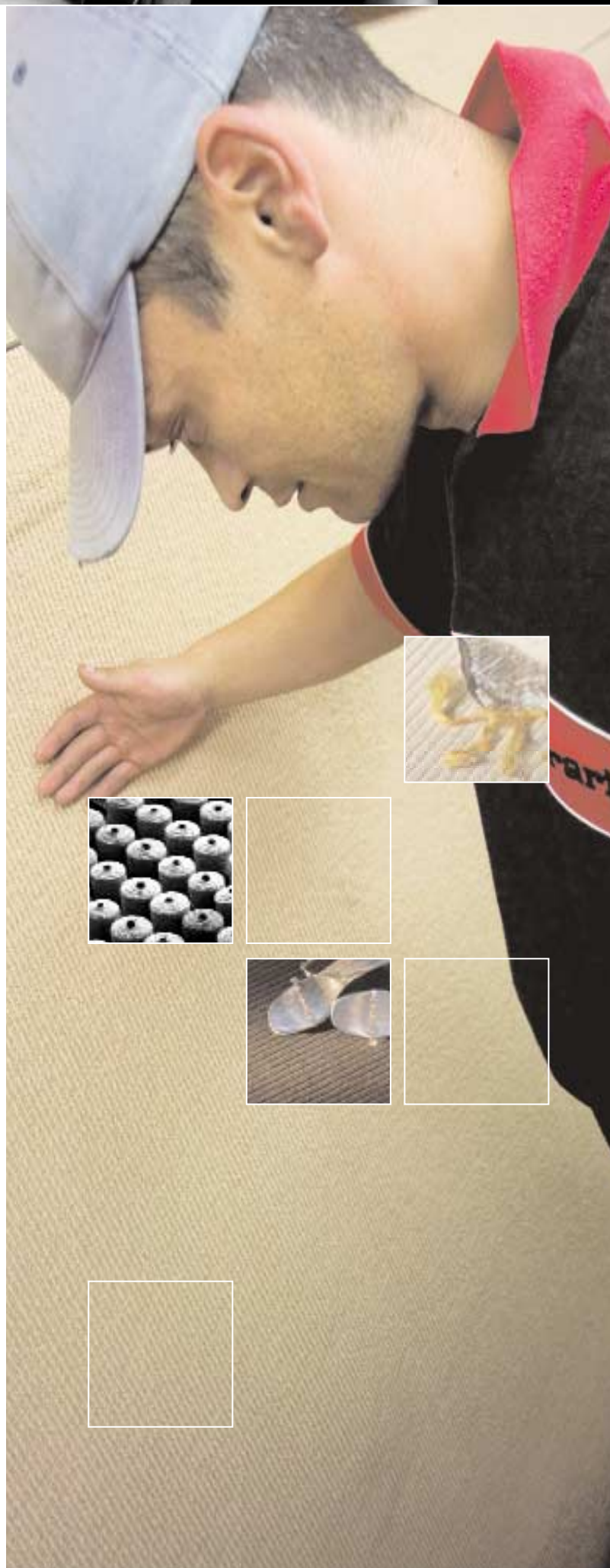
Yours faithfully

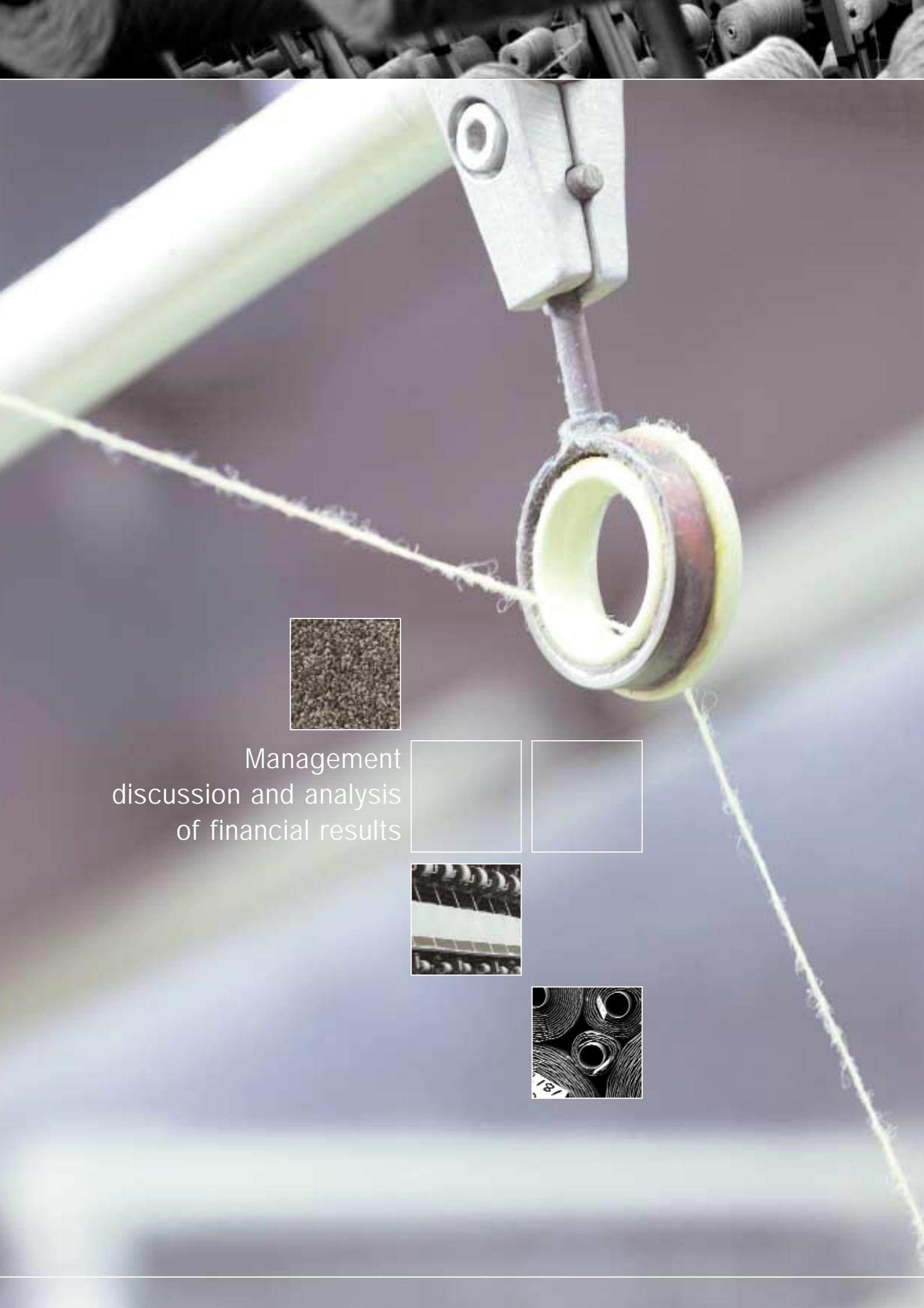


ERNST & YOUNG

Chartered Accountants

Auckland, New Zealand





Management
discussion and analysis
of financial results



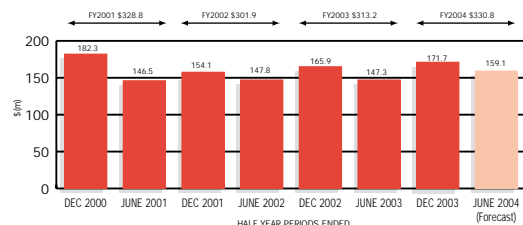
INTRODUCTION

A summary of the recent financial performance of Feltex is presented below for the seven consecutive six month periods ended December 2003 and for the six month forecast period ending June 2004. The first six month period ended December 2000 represents the first full six month period following the acquisition of Shaw Industries Australia.

The historical information is extracted from the audited historical accounts of Feltex and has been adjusted to eliminate the effects of discontinued operations, being the sale of Andersens Home Furnishings Co Pty Limited which occurred in April 2002 and the closure of the manufacturing operations of Shaw Tiles Australia Pty Limited which occurred in December 2002.

SALES REVENUE

Feltex's sales revenue generally displays a seasonal pattern. The first half of the financial year benefits from strong sales in the lead up to the December holiday period, while the second half is affected by slower sales in January and the Easter holidays.



These figures have been adjusted for discontinued operations.

FY2001

Sales revenue for the six months ended December 2000 was \$182.3 million. The high level of commercial business activity associated with the Sydney Olympics in September 2000 helped to strengthen sales in this period. Residential sales in this period were also positively impacted by orders that remained unfulfilled during the buoyant period prior to the introduction of GST in Australia in July 2000.

Sales revenue for the six months ended June 2001 decreased to \$146.5 million as a result of the contraction in both the commercial and residential sectors following the preceding surge associated with the Sydney Olympics and the introduction of GST in

Australia referred to above. The restructuring of Feltex's sales force and product realignment associated with the Shaw Industries Australia merger during the prior year also adversely impacted sales.

FY2002

Sales revenue for the six months ended December 2001 decreased by 15.5% (compared with the prior corresponding period). The decrease in sales was due to the combination of a number of adverse events occurring concurrently, including:

- the continuation of the contraction in the commercial and residential sectors;
- the ongoing restructuring of Feltex's sales force and realignment of product ranges post merger; and
- industrial action culminating in a five week strike at the Braybrook and Tottenham plants and the Brooklyn National Distribution Centre (all in Melbourne, Australia), which severely affected Feltex's ability to fill sales orders during the FY2002 period. This was of greatest significance during this period.

A further effect of the strike was to diminish Feltex's wool yarn, work in progress and carpet inventory, resulting in a shortage of wool carpet during the second half of FY2002 and extending into the first half of FY2003. This shortage of wool yarn was exacerbated by the relocation of some spinning equipment from Australia to New Zealand. The reduced capacity in calendar year 2002, while the relocated equipment was being installed, combined with the flow-on impact from the industrial action, constrained Feltex's ability to fill orders for wool carpet.

The impact of these events resulted in second half sales for the period ended June 2002 increasing marginally to \$147.8 million, relative to the prior corresponding period.

FY2003

Sales revenue for the first six months of FY2003 increased 7.7% to \$165.9 million, relative to the prior corresponding period. Growth was driven by a shift in Feltex's sales mix to the higher value end of the



product range, with the increase partially offset by the strengthening of the New Zealand dollar against the Australian dollar, (which reduced the New Zealand dollar value of Feltex's Australian sales on consolidation by \$9.6 million), and the shortage of wool yarn capacity while the relocated spinning equipment from Australia was being installed in New Zealand.

Sales revenue for the second six months of FY2003 remained flat at \$147.3 million, relative to the prior corresponding period. The flat sales were attributable to the strengthening of the New Zealand dollar against the Australian dollar, which reduced the New Zealand dollar value of Feltex's FY2003 Australian sales on consolidation by \$12.8 million, and Feltex's inability to service the demand for wool carpet while the relocated spinning equipment was being installed in New Zealand.

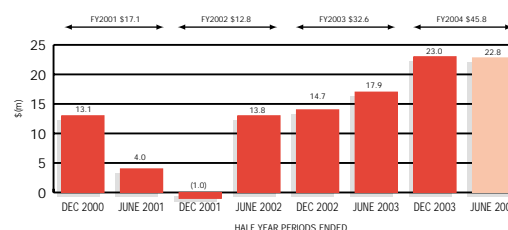
The impact of these two factors was offset partially by stronger relationships with key retailers, the strategy to use available capacity to service the high end of the market, a small increase in selling prices in March 2003 and improving market conditions.

First Half FY2004

Sales revenue for the first half of FY2004 increased by 3.5%, compared with the prior corresponding period, to \$171.7 million due to the following factors:

- completion of the installation of the relocated and acquired spinning equipment in New Zealand, providing Feltex with additional capacity to service the middle sector of the wool carpet market;
- maintaining sales of higher value products and market segments;
- new, unique products introduced into the market as a result of the investment in new tufting technology installed in June 2003;
- the full impact of the increase in selling prices implemented in March 2003; and
- generally favourable market conditions in New Zealand and Australia.

EBITDA



These figures have been adjusted for discontinued operations and one-off items.

FY2001

EBITDA for the six months ended December 2000 of \$13.1 million reflected the first full six month period incorporating the operations of Shaw Industries Australia and was positively impacted by the buoyant sales as discussed in the sales revenue commentary above.

EBITDA decreased in the second half of FY2001 to \$4.0 million, reflecting a contraction in the carpet sector described above and significant balance sheet provisioning in June 2001 as part of the review by the new management team of inventory and debtor related provisions following the merger.

FY2002

EBITDA for the first half of FY2002 decreased significantly to \$(1.0) million reflecting the continued weakness in sales and the industrial action experienced by Feltex in Australia discussed in the sales commentary above.

EBITDA recovered strongly to \$13.8 million in the second half of FY2002. Key factors contributing to this increase were:

- merger cost savings from the restructuring of the sales and marketing functions starting to be realised;
- initial cost savings achieved through sourcing of more of Australia's wool yarn requirements from New Zealand's production facilities;
- improving margins associated with strategic changes in product mix; and
- manufacturing efficiencies and reduced inventory costs associated with the implementation of lean manufacturing techniques.



FY2003

EBITDA for the six months ended December 2002 further increased to \$14.7 million reflecting the ongoing contribution of Feltex's cost saving initiatives and margin improvement strategies.

EBITDA for the second half of FY2003 ended June 2003 increased 21.8% to \$17.9 million. This increase reflected a combination of factors including:

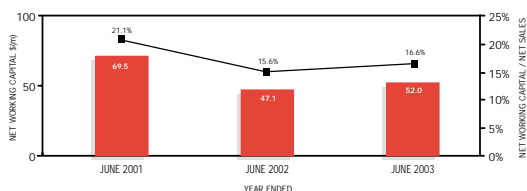
- ongoing cost savings associated with increased yarn production in New Zealand for use in Australian manufacturing;
- improved margins associated with the change in product mix to the upper end of the value spectrum; and
- the successful implementation of price increases in March 2003.

First Half FY2004

EBITDA for the first half of FY2004 ended December 2003 increased 28.5% to \$23.0 million. The improved half year result reflects the benefits of the 2002/2003 capital expenditure programme, which increased wool yarn capacity, lowered wool yarn costs and enabled new products to be manufactured by the tufting technology acquired in that programme.

NET WORKING CAPITAL

Net working capital is defined as the sum of trade receivables, other receivables and prepayments and inventories less accounts payable and current employee entitlements.



These figures have been adjusted for discontinued operations.

FY2001

Net working capital was \$69.5 million as at June 2001 representing 21.1% of Feltex's FY2001 net sales.

FY2002

Net working capital declined by approximately \$22.4 million to \$47.1 million as at June 2002, representing 15.6% of Feltex's FY2002 net sales. The net working capital reduction was primarily the result of a reduction in inventories of approximately \$18.9 million, largely due to:

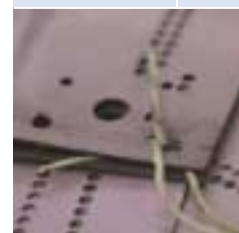
- a reduction in finished goods stock due to the five week strike at Feltex's Australian plants;
- initiatives to consolidate some of the overlapping product lines between Feltex's New Zealand and Australian operations; and
- implementation of lean manufacturing techniques in Australian operations and improved production planning.

FY2003

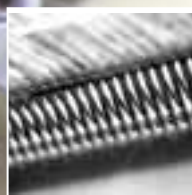
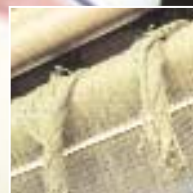
Net working capital increased by approximately \$4.9 million to \$52.0 million in 2003 representing 16.6% of Feltex's FY2003 net sales. The net working capital increase was the result of an \$11.9 million increase in inventories, primarily due to the replenishment of carpet inventories depleted in FY2002 as a result of the strike and increased stocks in response to stronger sales demand. This increase in inventories was partially offset by an \$8.0 million increase in creditors also due to strong sales demand and relatively high manufacturing throughput.

First Half FY2004

Net working capital was \$65.4 million as at December 2003. The net working capital increase was the result of higher receivables associated with increased seasonal sales and an increase in inventory to prepare for the annual two-week plant closure in January.



Prospective financial
information



FELTEX CARPETS LIMITED
CONSOLIDATED STATEMENT OF PROSPECTIVE FINANCIAL PERFORMANCE

FOR THE YEAR ENDING	FORECAST JUNE 2004 \$000	PROJECTION JUNE 2005 \$000
Total operating revenue	335,498	348,147
Earnings before interest, tax, depreciation, amortisation and write-offs – EBITDA	41,641	51,683
Depreciation	(8,076)	(8,427)
Earnings before interest, tax, amortisation and write-offs – EBITA	33,565	43,256
Amortisation of goodwill	(1,958)	(1,984)
Write-off of bank facility fee	(341)	-
Write-off of Bond issue costs	(4,881)	-
Earnings before interest and income tax	26,385	41,272
Interest expense	(13,307)	(7,526)
Early Redemption Amount	(5,014)	-
Operating surplus before income tax	8,064	33,746
Income tax benefit / (expense)	649	(11,335)
Net surplus after income tax	8,713	22,411
Share of retained surplus of associate companies after income tax	1,400	1,478
Net surplus attributable to Shareholders	10,113	23,889
Net surplus attributable to Shareholders (before amortisation, write-offs and Early Redemption Amount)	22,307	25,873

FELTEX CARPETS LIMITED
CONSOLIDATED STATEMENT OF PROSPECTIVE MOVEMENTS IN EQUITY

FOR THE YEAR ENDING	FORECAST JUNE 2004 \$000	PROJECTION JUNE 2005 \$000
Equity at beginning of year	16,652	90,250
Total recognised revenues and expenses		
Net surplus for the year	10,113	23,889
Foreign currency translation reserve	(159)	-
Revaluation reserves	15,394	-
Contributions from owners		
Shares issued	50,000	-
Issue costs	(1,750)	-
Distribution to owners		
Dividends	-	(16,806)
Equity at end of year	90,250	97,333

FELTEX CARPETS LIMITED
CONSOLIDATED STATEMENT OF PROSPECTIVE CASH FLOWS

FOR THE YEAR ENDING	FORECAST JUNE 2004 \$000	PROJECTION JUNE 2005 \$000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash was provided from		
Receipts from customers	328,260	347,035
Dividend income	283	300
Other income	4,737	1,850
	333,280	349,185
Cash was applied to		
Payments to suppliers and employees	(300,882)	(298,753)
Interest paid	(14,193)	(7,530)
Income tax paid	81	(10,676)
	(314,994)	(316,959)
Net cash inflow from operating activities	18,286	32,226
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash was applied to		
Purchase of fixed assets	(8,500)	(8,500)
Net cash outflow from investing activities	(8,500)	(8,500)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash was provided from		
Share issue	50,000	-
Proceeds from borrowings	15,000	-
	65,000	-
Cash was applied to		
Repayment of secured bonds	(60,000)	-
Payment of Early Redemption Amount	(5,014)	-
Payment of share issue costs	(1,750)	-
Repayment of borrowings	(10,452)	(6,920)
Dividends paid to the shareholders of the Company	-	(16,806)
	(77,216)	(23,726)
Net cash outflow from financing activities	(12,216)	(23,726)
Net increase / (decrease) in cash	(2,430)	-
Effect of exchange rate fluctuation on cash	(19)	-
Cash balances at beginning of year	3,449	1,000
Cash balances at end of year	1,000	1,000

FELTEX CARPETS LIMITED
CONSOLIDATED STATEMENT OF PROSPECTIVE FINANCIAL POSITION

AS AT	FORECAST JUNE 2004 \$000
TOTAL ASSETS	
Current assets	
Cash	1,000
Other current assets	131,761
Non current assets	
Property, plant and equipment	78,290
Investments	5,653
Goodwill	31,311
Future income tax benefit	9,803
Total assets	257,818
TOTAL LIABILITIES	
Current liabilities	
Current portion of borrowings	770
Other current liabilities	71,163
Non current liabilities	
Borrowings	94,335
Employee entitlements	1,300
Total liabilities	167,568
Net assets	90,250
EQUITY	
Attributable to Shareholders	90,250
Net working capital¹	60,598
Net debt	94,105

1. Net working capital equals trade receivables, other receivables and prepayments and inventories less accounts payable and current employee entitlements.

PRINCIPAL ASSUMPTIONS UNDERLYING THE FORECASTS

The principal assumptions upon which the forecast financial information is based are summarised below and should be read in conjunction with 'What are my risks?' on pages 125 to 130 of this Offer Document.

The prospective financial information for the year ending June 2004 presented on pages 85 to 87 of this Offer Document constitutes a forecast as defined in New Zealand Financial Reporting Standard No. 29, 'Prospective Financial Information' and has been prepared on the basis of assumptions as to future events that the Directors reasonably expect to occur associated with the actions the Directors reasonably expect to take as at the date the information was prepared. The forecast was prepared as at 4 May 2004 for use in this Offer Document. The forecast information may not be suitable for any other purpose. Actual results for the nine month period ended March 2004 have been incorporated into the forecast. There is no present intention to update this prospective financial information or to publish prospective financial information in the future.

In preparing the forecast financial information, the accounting policies set out under the heading 'Notes to and forming part of the Consolidated Financial Statements' on pages 100 to 114 of this Offer Document as part of the historical financial information have been applied on a consistent basis. There is no expectation of any change to the accounting policies that would require a material change in the reporting of Feltex's activities in the forecast period.

GENERAL ASSUMPTIONS

ECONOMIC ENVIRONMENT

There will be no material change to the general economic environment, the building or refurbishment markets in New Zealand or Australia.

LEGISLATIVE AND REGULATORY ENVIRONMENT

There will be no material change to the legislative or the regulatory environments in which Feltex operates.

EXCHANGE RATES

Exchange rates for the three months ending June 2004 are assumed to average 0.8772 A\$ per NZ\$ and 0.6491 US\$ per NZ\$. This assumption is based on the current exchange rates on the date that the forecast was completed, subject to exchange rate hedge contracts that Feltex has in place for the period, which it is assumed will be exercised. The exchange rate assumed for translating Australian dollar denominated assets and liabilities into New Zealand dollars at balance sheet date is assumed to be 0.8772 A\$ per NZ\$ and is based on the current exchange rates on the date this forecast was completed.

INCOME TAX

There will be no change to the New Zealand or Australian tax regime.

COMPETITIVE ENVIRONMENT

There will be:

- (i) no material changes in the competitive markets in which Feltex operates;
- (ii) no significant change in the pricing policy of competitors;
- (iii) no new entrants in the market;
- (iv) no change to the level of importation of carpets; and
- (v) no significant new production technology introduced in the floor covering market in New Zealand or Australia.

INDUSTRY CONDITIONS

There will be no material change to the carpet industry structure, general industry conditions or the carpet manufacturing and distribution business. The size of the carpet market in New Zealand and Australia, measured by volume of square metres sold, will grow marginally over the forecast period. The relationships between carpet manufacturers and floor covering retailers will remain unchanged and there will be no adverse developments with any major retailers.

FELTEX SPECIFIC ASSUMPTIONS

GENERAL

Feltex will continue as a solvent going concern with no change in its overall business strategies or operations and no significant acquisitions or disposals will occur over the forecast period.

MANAGEMENT OF FELTEX

Feltex senior management, key employees and Directors will continue in their current roles.

DISRUPTION TO OPERATIONS

There will be no disruptions to:

- (i) Feltex's operations including from natural or other disasters or machinery failure (outside of normal outages associated with wear and maintenance) or utility failure (including gas, electricity, water, or telecommunications) or industrial action of any type;
- (ii) the transportation of all raw materials, work-in-progress, finished goods or equipment, applicable to Feltex's business; and
- (iii) the services provided to Feltex by contractors, the availability of oil, greasy wool or yarns of the quality usually purchased by Feltex.

REVENUE

The forecast assumes that demand for Feltex products continues the trend experienced over the nine months ended March 2004 (adjusted for increased fourth quarter seasonality), that a small volume of new product is introduced into the market and that existing customers will continue to trade with Feltex at their current levels.

COST INCREASES

The impact of changes in costs, particularly the cost of greasy wool, yarn purchased from external suppliers, and the cost of raw materials to produce man-made fibre yarn is assumed to continue consistent with trends to the nine months to March 2004 and, where known to differ with the trend, is specifically allowed for in the forecast. Suppliers are assumed to trade with Feltex on their current terms and conditions and all existing supplier related contracts will remain in effect.

RUBBER UNDERLAY PLANT CLOSURE COSTS

The estimated closure costs of \$1.4 million associated with the closure of the rubber underlay plant have been factored into the forecast.

WOVEN PLANT RESTRUCTURING

Restructuring costs of \$2.8 million, associated with the woven plant restructuring are factored into the forecast.

INTEREST EXPENSE

Interest expense has been forecast based on actual interest cost for the nine months ended March 2004, and the estimated interest cost to June 2004 assuming that the Bonds are called as described in this Offer Document. Apart from the interest cost attributable to the Bonds, it is assumed that the interest attributable to other debt including trade terms is the known interest cost or is based on a forecast bank bill rate of between 5.6% and 5.9% applicable on the date that the forecast was completed, assuming that the apportionment of debt to New Zealand dollars and Australian dollars remains constant, allowing for the margin that Feltex pays its lenders (described under the heading 'Material Contracts' on pages 138 to 139 of this Offer Document), and the existing interest rate hedge contracts that Feltex has in place which it is assumed will be exercised.

TAXATION

The income tax benefit is forecast to be \$649,000 for the year ending June 2004. This results in a nil effective tax rate for the forecast period.

It is anticipated that the Australian Feltex Group will elect to form a consolidated group for income tax purposes. Upon formation of a tax consolidated group, the single entity concept results in all intra-group transactions being disregarded in calculating tax liabilities and allows for the pooling of the Australian Feltex Group's franking credits. Complex rules exist on formation that permit the reset of the tax cost base of assets in certain circumstances and prescribe the ability to transfer and subsequently utilise carry forward tax losses once in consolidation.

Feltex has not yet formally elected into the Australian tax consolidation regime, but a commencement date effective from 1 July 2003 is expected. Upon formation of a tax consolidated group, certain benefits should arise to the Australian Feltex Group. An estimate of these benefits has been incorporated into the forecast financial information for the year ending June 2004. The benefit is accounted for by a credit to projected tax expense, with a corresponding increase in the future income tax benefit.

DIVIDENDS

No dividends are forecast to be paid during the forecast period.

GOODWILL AMORTISATION

Goodwill amortisation reflects the historical level of the amortisation of goodwill associated with the acquisition of Shaw Industries Australia.

DEPRECIATION

Depreciation expense is consistent with the historical level of depreciation and Feltex's accounting policy.

OFFER COSTS

The forecast assumes that Offer costs of \$1.75 million will be paid by Feltex, with the remainder to be paid by the Vendor.

STATEMENT OF FINANCIAL POSITION

(i) Working capital

Working capital is assumed to be consistent with sales forecasts and the historical working capital requirements of the business, with a small net increase in inventory associated with the introduction of new products during the forecast period.

(ii) Capital expenditure

Capital expenditure is assumed to be \$8.5 million based on actual expenditure to March 2004 and approved and planned capital expenditure forecast to be incurred during the forecast period to 30 June 2004.

(iii) Debt structure

On 27 April 2004, a new bank facility was signed with ANZ providing facilities described under the heading 'Material Contracts' on pages 138 to 139 of this Offer Document. Pursuant to the successful completion of the Offer, Feltex will raise \$50 million of new equity, will call all \$60 million of outstanding Bonds, pay a redemption premium (associated with calling the Bonds) assumed to be approximately \$5 million and draw down an additional \$15 million from the ANZ facility.

(iv) Earnings from associate

It is assumed that Feltex will retain its 50% interest in Carpet Call (Holdings) Pty Limited ('Carpet Call') and that the pre-emptive right will not be exercised by the other shareholder. In Feltex's financial statements, Carpet Call is accounted for as an associate. Feltex's 50% share of Carpet Call's net earnings (after dividends are paid) are accounted for on an equity basis and disclosed in the statement of financial performance below the line 'Net surplus after income tax'. Cash dividends received from Carpet Call are accounted for in operating revenue.

PRINCIPAL ASSUMPTIONS UNDERLYING THE PROJECTIONS

The principal assumptions upon which the projected financial information is based are summarised below and should be read in conjunction with 'What are my risks?' on pages 125 to 130 of this Offer Document.

The prospective financial information for the year ending June 2005 presented on pages 85 to 87 of this Offer Document constitutes a projection as defined in New Zealand Financial Reporting Standard No. 29, 'Prospective Financial Information' and has been prepared on the basis of a number of hypothetical but realistic assumptions that reflect possible courses of action that the Directors reasonably expect to take as at the date the information was prepared. A projection is not a forecast. The projection was prepared as at 4 May 2004 for use in this Offer Document. The projection may not be suitable for any other purpose. There is no present intention to update this prospective financial information or to publish prospective financial information in the future. No actual results have been incorporated into the projection.

In preparing the projected financial information, the accounting policies set out under the heading 'Notes to and forming part of the Consolidated Financial Statements' on pages 100 to 114 of this Offer Document as part of the historical financial information have been applied on a consistent basis. There is no expectation of any change to the accounting policies that would require a material change in the reporting of Feltex activities in the projected period.

GENERAL ASSUMPTIONS

ECONOMIC ENVIRONMENT

There will be no material change to the general economic environment, or the building or refurbishment markets in New Zealand or Australia.

LEGISLATIVE AND REGULATORY ENVIRONMENT

There will be no material change to the legislative and regulatory environments in which Feltex operates.

EXCHANGE RATES

Exchange rates for the projected period are assumed to average 0.8772 A\$ per NZ\$ and 0.6491 US\$ per NZ\$. This assumption is based on the current exchange rate on the date that the projection was completed and allowing for the existing exchange rate hedge contracts that Feltex has in place to December 2004 which it assumes will be exercised.

INFLATION

Inflation is assumed to be 3% in Australia and New Zealand during the projected period.

INCOME TAX

There will be no change to the New Zealand or Australian tax regimes.

COMPETITIVE ENVIRONMENT

There will be:

- (i) no material changes in the competitive markets in which Feltex operates;
- (ii) no significant change in the pricing policy of competitors;
- (iii) no new entrants in the market;
- (iv) no change to the level of importation of carpets; and
- (v) no significant new production technology introduced in the floor covering market in New Zealand or Australia.

INDUSTRY CONDITIONS

There will be no material change to the carpet industry structure, general industry conditions (including changes related to reduced tariffs) or the carpet manufacturing and distribution business. The size of the carpet market in New Zealand and Australia, measured by volume of linear metres sold, will grow over the projected period by approximately 1%, which is below the average growth rate over the past 10 years. The relationships between carpet manufacturers and floor covering retailers will remain unchanged and there will be no adverse developments with any material retailers.

FELTEX SPECIFIC ASSUMPTIONS

GENERAL

Feltex will continue as a solvent going concern with no change in its overall business strategies or operations and no significant acquisitions or disposals will occur over the projected period.

MANAGEMENT OF FELTEX

Feltex senior management, key employees and Directors will continue in their current roles.

DISRUPTION TO OPERATIONS

There will be no disruptions to:

- (i) Feltex's operations including from natural or other disasters or machinery failure (outside of normal outages associated with wear and maintenance) or utility failure (including gas, electricity, water, or telecommunications) or industrial actions of any type;
- (ii) the transportation of all raw materials, work-in-progress, finished goods or equipment, applicable to Feltex's business; and
- (iii) the services provided to Feltex by contractors, the availability of oil, greasy wool or yarns of the quality usually purchased by Feltex.

REVENUE

The projection assumes that the market will grow as described above under the heading 'Industry Conditions', that new products are introduced into the market in line with expectations, that Feltex will successfully implement the strategies outlined under the heading 'Business Description', resulting in Feltex's market share increasing by approximately 1% over the projected period. No change in the selling prices for carpets is assumed during the projected period.

COST INCREASES

It is assumed that to the extent that raw material costs increase during the projected period, there would be a corresponding increase in carpet selling prices (noting that the projection does not assume any carpet selling price increases), resulting in a neutral earnings effect. Labour costs are assumed to increase in line with general industry trends. Overhead costs are assumed to increase in line with the assumed rate of inflation. Variable costs are assumed to increase proportionately with increases in production. Suppliers are assumed to trade with Feltex on their current terms and conditions. The costs associated with being a public company have been factored into the projection.

TAXATION

Income tax expense is projected to be \$11.3 million for the year ending June 2005. This reflects an effective tax rate of approximately 33.6% after allowing for the impact of non-deductible goodwill amortisation charges and other significant permanent differences.

It is anticipated that the Australian Feltex Group will elect to form a consolidated group for income tax purposes. Feltex has not yet formally elected into the Australian tax consolidation regime, but a commencement date effective from 1 July 2003 is expected. Upon formation of a tax consolidated group, certain benefits should arise to the Australian Feltex Group. The estimated annual benefit has been incorporated into the projected financial information for the year ending June 2005.



INTEREST EXPENSE

Interest expense has been projected based on a bank bill rate of between 5.6% and 5.9% applicable on the date that the projection was completed assuming that the apportionment of debt to New Zealand dollars and Australian dollars remains constant, allowing for the margin that Feltex pays its lenders (described under the heading 'Material Contracts' on pages 138 to 139 of this Offer Document), and the existing interest rate hedge contracts that Feltex has in place which it is assumed will be exercised. Additional interest expense associated with certain trade credit and leasing facilities is assumed to be in line with the historical costs.

DIVIDENDS

A dividend of \$9.0 million in respect of the period ending June 2004 is projected to be paid in October 2004. Thereafter dividends are assumed to be declared in line with the Feltex dividend policy as set out under the heading 'What returns will I get?' on pages 123 to 125 of this Offer Document. An interim dividend of \$7.8 million in respect of the year ending June 2005 is projected to be paid in March 2005.

GOODWILL AMORTISATION

Goodwill amortisation reflects the historical level of amortisation of goodwill associated with the acquisition of Shaw Industries Australia Pty Limited.

DEPRECIATION

Depreciation expense is consistent with the historical level of depreciation and has been adjusted for the depreciation on the projected capital expenditure to be incurred during the year ending June 2005. The depreciation rates used are in accordance with Feltex's accounting policy.

EARNINGS FROM ASSOCIATE

It is assumed that Feltex will retain its 50% interest in Carpet Call (Holdings) Pty Limited ('Carpet Call') and that the pre-emptive right will not be exercised by the other shareholder. In Feltex's financial statements, Carpet Call is accounted for as an associate. Feltex's 50% share of Carpet Call's net earnings after (dividends are paid) are accounted for on an equity basis and disclosed in the statement of financial performance below the line 'Net surplus after income tax'. Cash dividends received from Carpet Call are accounted for in operating revenue.

SIP GRANT

A Strategic Investment Program grant of \$1.9 million is assumed to be received during the projected period and included in operating revenue. The Strategic Investment Program is an Australian Government initiative that provides a cash rebate of approximately 40% of eligible capital expenditure and approximately 90% (decreasing to 80% from 1 July 2005) of eligible innovation expenditure incurred in the previous financial year.

WORKING CAPITAL

Working capital is assumed to be consistent with sales projection and the historical working capital requirements of the business, with a small increase in inventory associated with the introduction of new products during the projected period and the introduction of some varied payment terms associated with sales growth assumptions.

CAPITAL EXPENDITURE

Capital expenditure is assumed to be \$8.5 million for the projected period in line with management's assessment of the required expenditure for replacement and new equipment.

DEBT STRUCTURE

No amortisation of the new debt facility is required or assumed during the projected period.

HISTORICAL FIVE-YEAR SUMMARY FINANCIAL INFORMATION

The historical financial information summarised below is derived from the audited consolidated financial statements of the Feltex Group for the periods ended 30 June 2003, 30 June 2002, 30 June 2001, 30 June 2000 and 31 July 1999 and the audited consolidated financial statements of the Feltex Group for the six months ended 31 December 2003. The accounting policies set out under the heading 'Statement of accounting policies' on pages 100 to 101 of this Offer Document have been consistently applied for all financial periods presented.

FELTEX CARPETS LIMITED CONSOLIDATED SUMMARY OF FINANCIAL INFORMATION

FOR THE PERIOD ENDED	AUDITED DEC 2003 6 MONTHS \$000	AUDITED JUNE 2003 12 MONTHS \$000	AUDITED JUNE 2002 ¹ 12 MONTHS \$000	AUDITED JUNE 2001 ² 12 MONTHS \$000	AUDITED JUNE 2000 ¹ 11 MONTHS \$000	AUDITED JULY 1999 12 MONTHS \$000
Total operating revenue	173,343	314,352	322,506	350,735	162,335	119,596
Earnings before interest and income tax	18,128	21,226	1,816	6,246	11,182	12,058
Interest expense	(7,562)	(15,541)	(19,977)	(18,799)	(6,730)	(5,033)
Operating surplus / (deficit) before income tax	10,566	5,685	(18,161)	(12,553)	4,452	7,025
Income tax benefit / (expense)	14	35	(383)	(255)	(2,106)	(1,779)
Net surplus / (deficit) after income tax	10,580	5,720	(18,544)	(12,808)	2,346	5,246
(Surplus) / deficit after income tax attributable to minority shareholders in subsidiary companies	-	-	(241)	202	(50)	-
Share of retained surplus / (deficit) of associate companies after income tax	834	1,121	502	(575)	311	-
Net surplus / (deficit) attributable to Shareholder of Feltex	11,414	6,841	(18,283)	(13,181)	2,607	5,246

FELTEX CARPETS LIMITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT	DEC 2003	JUNE 2003	JUNE 2002	JUNE 2001	JUNE 2000	JULY 1999
Total assets	247,620	248,938	228,532	273,094	301,338	81,556
Total tangible assets	215,226	215,485	192,720	232,140	258,837	81,556
Total liabilities	219,473	232,286	218,586	246,330	264,072	48,768
Net assets (Total equity)	28,147	16,652	9,946	26,764	37,266	32,788
Net tangible assets	(4,247)	(16,801)	(25,866)	(14,190)	(5,235)	32,788
Number of ordinary shares issued	19,505,095 Shares	19,505,095 Shares	19,505,095 Shares	1,705,000 Shares	1,705,000 Shares	1,622,500 Shares
Net asset backing per share - \$ / share	\$ 1.44 / Share	\$ 0.85 / Share	\$ 0.51 / Share	\$ 15.70 / Share	\$ 21.86 / Share	\$ 20.21 / Share
Net tangible asset backing per share - \$ / share	(\$ 0.22 / Share)	(\$ 0.86 / Share)	(\$ 1.33 / Share)	(\$ 8.32 / Share)	(\$ 3.07 / Share)	\$ 20.21 / Share
AFTER CLOSE OF OFFER	HIGH POINT		MID POINT		LOW POINT	
Number of ordinary shares issued	145,641,026 Shares		147,322,404 Shares		149,411,765 Shares	
Net tangible asset backing per share - \$ / share	\$0.30 / Share		\$0.30 / Share		\$0.29 / Share	
Net tangible asset backing per share - (on a fully diluted basis) \$ / share ⁴	\$0.39 / Share		\$0.38 / Share		\$0.37 / Share	

NOTES:

- Following the acquisition of Shaw Industries Australia Pty Limited in May 2000, Feltex changed its year end to 30 June.
- The year ended 30 June 2001 was the first full year that included the financial results of Feltex Australia Pty Limited (formerly Shaw Industries Australia Pty Limited).
- In April 2002, Feltex sold its interest in Andersens Home Furnishings Co Pty Limited. The operating results of Andersens Home Furnishings Co Pty Limited have been excluded from the statement of financial performance from that date. This reduced total operating revenue by \$19.2 million.
- Assumes that all 7.975 million options referred to under the heading 'Executive Share Option Plans' on pages 69 to 70 of the Offer Document have been issued and exercised.





Consolidated financial statements



FELTEX CARPETS LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

FOR THE PERIOD ENDED		DEC 2003 6 MONTHS \$000	JUNE 2003 12 MONTHS \$000	JUNE 2002 12 MONTHS \$000
	NOTE			
Total operating revenue	2	173,343	314,352	322,506
Earnings before interest and income tax		18,128	21,226	1,816
Interest expense	3	(7,562)	(15,541)	(19,977)
Operating surplus / (deficit) before income tax	3	10,566	5,685	(18,161)
Income tax benefit / (expense)	4	14	35	(383)
Net surplus / (deficit) after income tax		10,580	5,720	(18,544)
(Surplus) after income tax attributable to minority shareholders in subsidiary companies		-	-	(241)
Share of retained surplus of associate companies after income tax	12	834	1,121	502
Net surplus / (deficit) attributable to Shareholder of Feltex		11,414	6,841	(18,283)

The accompanying notes form part of these financial statements

FELTEX CARPETS LIMITED
CONSOLIDATED STATEMENT OF MOVEMENT IN EQUITY

FOR THE PERIOD ENDED		DEC 2003 6 MONTHS \$000	JUNE 2003 12 MONTHS \$000	JUNE 2002 12 MONTHS \$000
	NOTE			
Equity at beginning of the year		16,652	9,946	10,040
Net surplus / (deficit) attributable to:				
Parent Company shareholder	16	11,414	6,841	(18,283)
Minority shareholders	17	-	-	241
Ordinary shares issued during the year	18	-	-	17,800
Foreign exchange gain / (loss) on consolidation	14	81	(135)	1,421
Share issue Shaw Tiles Australia Pty Limited	17	-	-	148
Sale of Andersens Home Furnishing Co Pty Limited	17	-	-	(1,421)
Equity at end of the period / year		28,147	16,652	9,946

The accompanying notes form part of these financial statements

FELTEX CARPETS LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDED	DEC 2003 6 MONTHS \$000	JUNE 2003 12 MONTHS \$000	JUNE 2002 12 MONTHS \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Receipts from customers	161,546	311,814	321,548
Interest received	23	95	144
Income tax refunded	35	42	427
Government grants and rebates	1,406	815	795
Dividend received from associate company	283	-	-
	163,293	312,766	322,914
Cash was disbursed to:			
Payments to suppliers and employees	(152,010)	(285,373)	(291,095)
Interest paid	(8,433)	(16,160)	(18,339)
Withholding tax paid	-	-	(236)
Income tax paid	(39)	(267)	(530)
	(160,482)	(301,800)	(310,200)
Net cash inflow from operating activities	2,811	10,966	12,714
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Proceeds from the sale of fixed assets	8	2,866	230
Proceeds from share issue in subsidiary	-	-	158
Proceeds from sale of subsidiary	-	-	1,430
	8	2,866	1,818
Cash was applied to:			
Purchase of fixed assets	(1,904)	(10,731)	(4,389)
	(1,904)	(10,731)	(4,389)
Net cash outflow from investing activities	(1,896)	(7,865)	(2,571)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Borrowings	-	4,691	-
Proceeds from bonds issue	-	60,000	-
	-	64,691	-
Cash was applied to:			
Repayment of borrowings	(2,998)	(56,725)	(17,789)
Bond issue costs	(49)	(4,987)	-
Finance lease repayments	(106)	-	(151)
	(3,153)	(61,712)	(17,940)
Net cash inflow / (outflow) from financing activities	(3,153)	2,979	(17,940)
Net increase / (decrease) in cash held	(2,238)	6,080	(7,797)
Effect of exchange rate changes on cash	(18)	(105)	(22)
Opening cash balance	3,449	(2,526)	5,293
Closing cash balance	1,193	3,449	(2,526)
Represented by:			
Cash at bank	1,754	3,449	244
Bank overdraft	(561)	-	(2,770)
	1,193	3,449	(2,526)

The accompanying notes form part of these financial statements

FELTEX CARPETS LIMITED
RECONCILIATION OF CONSOLIDATED CASH FLOWS FROM OPERATING ACTIVITIES

FOR THE PERIOD ENDED	DEC 2003 6 MONTHS \$000	JUNE 2003 12 MONTHS \$000	JUNE 2002 12 MONTHS \$000
Net surplus / (deficit) after income tax	10,580	5,720	(18,544)
Non cash items			
Amortisation of Bond issue costs	470	154	-
Depreciation	3,859	7,843	9,325
Amortisation of goodwill	987	1,949	2,078
Decrease / (increase) in future income tax benefit	(7)	76	1,026
Decrement in property, plant and equipment on the sale of Andersens Home Furnishing Pty Limited	-	-	322
Disposal of subsidiary - net assets	-	-	(2,865)
Foreign currency translation adjustments	104	543	-
	5,413	10,565	9,886
Movement in working capital			
Increase / (decrease) in accounts payable	(8,996)	7,978	1,940
Increase / (decrease) in employee entitlements	(1,115)	1,797	(1,386)
Increase / (decrease) in taxation payable	-	(368)	173
(Increase) / decrease in other taxation receivable	(11)	32	-
(Increase) / decrease in trade receivables	(10,105)	(1,291)	2,699
(Increase) / decrease in other receivables & prepayments	(554)	(671)	303
(Increase) / decrease in inventories	7,280	(11,906)	18,894
Foreign currency translation effects of working capital movements	292	(860)	(1,285)
	(13,209)	(5,289)	21,338
Items classified as an investing activity included in net surplus / (deficit) after taxation			
Net loss on sale of fixed assets	27	-	7
Net profit on sale of fixed assets	-	(30)	(3)
Net loss on sale of subsidiary	-	-	30
	27	(30)	34
Net cash inflow from operating activities	2,811	10,966	12,714

The accompanying notes form part of these financial statements

FELTEX CARPETS LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT	NOTE	DEC 2003 \$000	JUNE 2003 \$000	JUNE 2002 \$000
NET ASSETS				
Current assets				
Cash		1,754	3,449	244
Trade receivables	5	59,195	49,090	47,799
Other receivables and prepayments	6	4,428	3,864	2,265
Income tax receivable		11	-	32
Inventories	7	72,135	79,415	67,509
		137,523	135,818	117,849
LESS:				
Current liabilities				
Bank overdraft		561	-	2,770
Accounts payable	8	58,927	67,923	59,945
Current portion of borrowings	9	2,261	2,457	3,787
Employee entitlements		11,406	12,452	10,551
Provision for income tax		-	-	368
		73,155	82,832	77,421
Working capital		64,368	52,986	40,428
PLUS:				
Non-current assets				
Property, plant and equipment	10	60,922	63,016	63,417
Term receivables and other non-current assets	11	3,474	4,180	-
Investments	12	5,076	4,247	3,154
Goodwill	13	32,394	33,453	35,812
Future income tax benefit	4	8,231	8,224	8,300
		110,097	113,120	110,683
LESS:				
Non-current liabilities				
Borrowings	9	145,051	148,118	139,725
Employee entitlements		1,267	1,336	1,440
		146,318	149,454	141,165
Total net assets		28,147	16,652	9,946
CAPITAL EMPLOYED				
Share capital	15	19,505	19,505	19,505
Reserves	14	1,230	1,149	1,284
Retained earnings attributable to Parent Company shareholder	16	7,412	(4,002)	(10,843)
Total equity		28,147	16,652	9,946
Total capital employed		28,147	16,652	9,946

The accompanying notes form part of these financial statements

1. STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

Feltex is a company registered under the Companies Act 1993 and an issuer for the purposes of the Financial Reporting Act 1993. The Feltex Group consists of Feltex Carpets Limited and its subsidiaries.

The financial statements of the Feltex Group have been prepared in accordance with the Financial Reporting Act 1993.

MEASUREMENT BASIS

The Feltex Group follows the accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on a 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 significant inter-company transactions are eliminated on consolidation.

(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 Feltex Group has eight classes of property, plant and equipment:

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

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

Major depreciation periods are:

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

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

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

(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 Feltex Group leases certain property, plant and machinery and motor vehicles.

Finance leases, which effectively transfer to the Feltex 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 Feltex 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) 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.

(l) Changes in accounting policies

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

(m) Changes in comparatives

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

2. TOTAL OPERATING REVENUE

	DEC 2003 6 MONTHS \$000	JUNE 2003 12 MONTHS \$000	JUNE 2002 12 MONTHS \$000
Sales	171,658	313,412	321,564
Interest revenue	23	95	144
Profit / (loss) on sale of property, plant & equipment	(27)	30	3
Government grants and rebates	1,406	815	795
Dividend received from associate company	283	-	-
Total operating revenue	173,343	314,352	322,506

3. OPERATING SURPLUS / (DEFICIT) BEFORE INCOME TAX

OPERATING SURPLUS / (DEFICIT) BEFORE INCOME TAX IS ARRIVED AT AFTER TAKING ACCOUNT OF THE FOLLOWING	DEC 2003 6 MONTHS \$000	JUNE 2003 12 MONTHS \$000	JUNE 2002 12 MONTHS \$000
Expenses:			
Amortisation of goodwill	987	1,949	2,078
Auditor's fees - audit	179	252	260
Auditor's fees - other services	146	302	324
Bad and doubtful debts expense	165	209	248
Bad debts recovered	(139)	-	-
Depreciation - buildings	871	1,228	1,156
Depreciation - plant and machinery	2,261	4,595	6,169
Depreciation - leased assets	60	-	37
Depreciation - furniture and fittings	35	84	73
Depreciation - office equipment	632	1,933	1,862
Depreciation - motor vehicles	-	3	28
Directors' fees	166	314	341
Interest on borrowings	7,562	15,541	19,977
Rental and operating lease costs	2,000	3,891	5,540
Loss on sale of subsidiary	-	-	30

4. TAXATION

	DEC 2003 6 MONTHS \$000	JUNE 2003 12 MONTHS \$000	JUNE 2002 12 MONTHS \$000
Operating surplus / (deficit) before income tax	10,566	5,685	(18,161)
Taxation at 33 cents per dollar	3,486	1,875	(5,993)
Adjusted for:			
Permanent differences	499	(3,304)	643
Prior year adjustments	(1,663)	1,235	2,774
Recognition of previously unrecognised tax benefits	(3,629)	(817)	-
Tax benefits not recognised	1,164	609	2,523
Adjustment for effect of foreign currency translations	261	234	-
Adjustment for rates other than 33 cents	(132)	133	436
Income tax (benefit) / expense	(14)	(35)	383
Current taxation			
New Zealand	-	(39)	201
Non New Zealand	5	(6)	(300)
Total current taxation	5	(45)	(99)
Deferred taxation			
New Zealand	-	-	127
Non New Zealand	(19)	10	355
Total deferred taxation	(19)	10	482
Income tax (benefit) / expense	(14)	(35)	383
Deferred taxation - future income tax benefit			
Opening balance	8,224	8,300	9,326
Movement for the year / period	19	(10)	(482)
Foreign currency translation effect	(12)	(66)	(544)
Closing balance	8,231	8,224	8,300
Unrecognised tax benefits - gross			
New Zealand	20,301	27,445	25,579
Non New Zealand	1,001	3,289	6,686
Total unrecognised tax benefits	21,302	30,734	32,265

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

5. TRADE RECEIVABLES

	DEC 2003 \$000	JUNE 2003 \$000	JUNE 2002 \$000
Trade debtors - external	59,273	48,525	46,987
Trade debtors - associate companies	1,766	2,233	2,551
Less: Provision for doubtful debts	(1,844)	(1,668)	(1,739)
Total trade receivables	59,195	49,090	47,799

6. OTHER RECEIVABLES AND PREPAYMENTS

	DEC 2003 \$000	JUNE 2003 \$000	JUNE 2002 \$000
Bonds issue costs - current portion	938	928	-
Prepayments	2,821	1,297	1,427
GST receivable	245	1,146	123
Other	424	493	715
Total other receivables and prepayments	4,428	3,864	2,265

7. INVENTORIES

	DEC 2003 \$000	JUNE 2003 \$000	JUNE 2002 \$000
Raw materials	18,077	19,763	19,587
Work in progress	9,220	13,377	8,822
Finished goods	44,838	46,275	39,100
Total inventory	72,135	79,415	67,509

Certain inventories are subject to retention of title clauses. Inventories are also subject to a floating charge as security for borrowings (refer to Note 9).

8. ACCOUNTS PAYABLE

	DEC 2003 \$000	JUNE 2003 \$000	JUNE 2002 \$000
Accounts payable - external	58,927	67,923	59,945
Total accounts payable	58,927	67,923	59,945

9. BORROWINGS

	DEC 2003 \$000	JUNE 2003 \$000	JUNE 2002 \$000
Bank loan	-	-	19,000
Interest rate	-	-	10.13%
Commercial bills	82,861	85,882	124,508
Interest rate	6.37%	6.37%	9.51%
Debentures	2	2	4
Interest rate	-	-	-
Term loan	3,300	3,436	-
Interest rate	6.20%	6.20%	-
Bonds	60,000	60,000	-
Interest rate	10.25%	10.25%	-
Finance lease	1,149	1,255	-
Interest rate	8.20%	8.20%	-
Total borrowings	147,312	150,575	143,512
Total borrowings are classified as follows:			
Non current portion	145,051	148,118	139,725
Current portion	2,261	2,457	3,787
Total borrowings	147,312	150,575	143,512

REPAYABLE AS FOLLOWS	DEC 2003 \$000	JUNE 2003 \$000	JUNE 2002 \$000
BORROWINGS			
Repayable as follows:			
Less than 1 year	2,261	2,457	3,787
Between 1-2 years	832	832	17,357
Between 2-5 years	144,219	87,286	122,368
Over 5 years	-	60,000	-
Total borrowings	147,312	150,575	143,512

Bank loans, commercial bills, bank overdrafts and other bank facilities provided by ANZ Banking Group to the Feltex Group are secured by way of a first mortgage over land and buildings of the Feltex Group, and by fixed and floating charges over the assets and undertakings of the Feltex Group. The term of Feltex's facility with the ANZ Banking Group expires on 31 December 2007.

The Bonds are secured by way of a second mortgage over land and buildings of the Feltex Group and by fixed and floating charges over assets and undertakings of the Feltex Group. The Bonds have a maturity date of 15 September 2008.

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

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

10. PROPERTY, PLANT AND EQUIPMENT

	DEC 2003			JUNE 2003			JUNE 2002		
	COST \$000	ACCUMULATED DEPRECIATION \$000	BOOK VALUE \$000	COST \$000	ACCUMULATED DEPRECIATION \$000	BOOK VALUE \$000	COST \$000	ACCUMULATED DEPRECIATION \$000	BOOK VALUE \$000
Land	7,960	-	7,960	7,973	-	7,973	9,249	-	9,249
Buildings and leasehold improvements	28,007	4,072	23,935	28,022	3,200	24,822	29,895	2,552	27,343
Plant and machinery - owned	48,313	21,141	27,172	46,705	19,071	27,634	38,558	14,881	23,677
Plant and machinery - leased	1,277	59	1,218	1,279	-	1,279	-	-	-
Furniture and fittings	987	885	102	985	850	135	969	766	203
Office equipment	8,141	7,606	535	8,137	6,974	1,163	7,972	5,041	2,931
Motor vehicles - owned	29	29	-	45	35	10	76	62	14
Total property, plant and equipment	94,714	33,792	60,922	93,146	30,130	63,016	86,719	23,302	63,417

GOVERNMENT VALUATION	LAND \$000	BUILDINGS \$000	TOTAL \$000
New Zealand	2,720	3,030	5,750
Australia	6,637	12,919	19,556
	9,357	15,949	25,306

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 9).

11. TERM RECEIVABLES

	DEC 2003 \$000	JUNE 2003 \$000	JUNE 2002 \$000
Bonds issue costs - non current portion	3,474	3,905	-
Other	-	275	-
Total term receivables	3,474	4,180	-

12. INVESTMENTS

NAME	PRINCIPAL ACTIVITY	DEC 2003 \$000	JUNE 2003 \$000	JUNE 2002 \$000
Investments in subsidiaries:				
Operations Limited (a)	Property lessee	100.0%	100.0%	100.0%
Carpet Mill Products New Zealand Limited (a)	Non trading	100.0%	100.0%	100.0%
Feltex USA Incorporated (a)	Yarn distributor	100.0%	100.0%	100.0%
Feltex Australia Holdings Pty Limited (a)	Investment holding company	100.0%	100.0%	100.0%
Feltex Australia Pty Limited (b)	Manufacturer and distributor of carpet and yarn	100.0%	100.0%	100.0%
Mellon Investments Pty Limited (c)	Ownership of plant, equipment and property	100.0%	100.0%	100.0%
Allmere Pty Limited (c)	Investment in associate	100.0%	100.0%	100.0%
Invicta Carpets Inc. (c)	Non trading	100.0%	100.0%	100.0%
Shaw Tiles Australia Pty Limited (c)	Distributor of carpet products	100.0%	100.0%	55.2%
IGIPC Pty Limited (d)	Ownership of plant and equipment	100.0%	100.0%	100.0%
Investment in associate:				
Carpet Call (Holdings) Pty Limited	Wholesale, retail and installation of floor coverings	50.0%	50.0%	50.0%

Balance date for all subsidiaries and associates is 30 June.

(a) directly controlled by Feltex Carpets Limited

(b) directly controlled by Feltex Australia Holdings Pty Limited

(c) directly controlled by Feltex Australia Pty Limited

(d) directly controlled by Mellon Investments Pty Limited

In April 2002, the Feltex Group sold its interest in Andersens Home Furnishings Co Pty Limited. The operating results of Andersens Home Furnishings Co Pty Limited have been excluded from the statement of financial performance from that date.

In February 2003, the Feltex Group acquired the outside shareholders' interest in Shaw Tiles Australia Pty Limited for a nominal value.

ASSOCIATE	DEC 2003 \$000	JUNE 2003 \$000	JUNE 2002 \$000
Share of operating surplus before income tax	1,640	1,668	444
Share of taxation (expense) / benefit	(509)	(521)	88
Share of operating surplus after income tax	1,131	1,147	532
Goodwill amortisation	(14)	(26)	(30)
Share of surplus after income tax	1,117	1,121	502
Dividend received from associate	(283)	-	-
Share of retained surplus after income tax	834	1,121	502
Share of retained surplus / (deficit) at beginning of the year	1,338	214	(279)
Foreign exchange revaluation of share of retained surplus / (deficit)	1	3	(9)
Share of retained surplus at end of the period / year	2,173	1,338	214
Cost of investment in associate	3,233	3,233	3,233
Foreign exchange revaluation of cost	(330)	(324)	(293)
Investment in associate	5,076	4,247	3,154

13. GOODWILL

	DEC 2003 \$000	JUNE 2003 \$000	JUNE 2002 \$000
Goodwill at cost	44,043	44,043	44,043
Foreign exchange revaluation of cost	(4,170)	(4,098)	(3,688)
Accumulated amortisation	(7,479)	(6,492)	(4,543)
Goodwill	32,394	33,453	35,812

14. RESERVES

	DEC 2003 \$000	JUNE 2003 \$000	JUNE 2002 \$000
Foreign currency translation reserve:			
Opening balance	1,149	1,284	(137)
Movement during the period / year	81	(135)	1,421
Closing balance	1,230	1,149	1,284
Total reserves	1,230	1,149	1,284

15. SHARE CAPITAL

	DEC 2003 \$000	JUNE 2003 \$000	JUNE 2002 \$000
Opening balance	19,505	19,505	1,705
Ordinary shares issued in year	-	-	17,800
Closing balance	19,505	19,505	19,505
Represented by:			
Number of fully paid ordinary Shares	19,505,095	19,505,095	19,505,095

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

Credit Suisse First Boston Asian Merchant Partners, L.P., which is an affiliate of Credit Suisse First Boston Private Equity, Inc., the principal investing arm of Credit Suisse First Boston, holds all of the issued ordinary Shares in Feltex.

16. RETAINED EARNINGS

	DEC 2003 \$000	JUNE 2003 \$000	JUNE 2002 \$000
Opening balance	(4,002)	(10,843)	7,440
Add: Net surplus / (deficit) for the period / year	11,414	6,841	(18,283)
Closing balance	7,412	(4,002)	(10,843)

17. MINORITY SHAREHOLDERS

Total equity includes the following balances attributable to minority shareholders of the Feltex Group:

	DEC 2003 \$000	JUNE 2003 \$000	JUNE 2002 \$000
Opening balance	-	-	1,032
Net surplus for the year	-	-	241
Share issue Shaw Tiles Australia Pty Limited	-	-	148
Sale of Andersens Home Furnishing Co Pty Limited	-	-	(1,421)
Closing balance	-	-	-

18. SHAREHOLDER'S CONVERTIBLE NOTES

	DEC 2003 \$000	JUNE 2003 \$000	JUNE 2002 \$000
Opening balance	-	-	16,724
Interest for year	-	-	1,196
Non resident withholding tax	-	-	(120)
Converted to share capital	-	-	(17,800)
Closing balance	-	-	-

19. CAPITAL EXPENDITURE COMMITMENTS

	DEC 2003 \$000	JUNE 2003 \$000	JUNE 2002 \$000
Capital expenditure commitments	4,241	1,198	1,556

20. OPERATING LEASE COMMITMENTS

Lease commitments under non-cancellable operating leases:

	DEC 2003 \$000	JUNE 2003 \$000	JUNE 2002 \$000
Less than one year	3,534	3,598	3,750
Between one and two years	2,147	2,465	3,055
Between two and five years	1,860	1,830	4,410
Greater than five years	522	979	217
Total operating lease commitments	8,063	8,872	11,432

21. CONTINGENT LIABILITIES

PARENT COMPANY:

Feltex has provided a guarantee of bank facilities of an associate company.

The guarantee is limited to A\$2,390,000 (June 2003: A\$2,390,000, June 2002: A\$2,390,000). Feltex was released from this guarantee from 1 April 2004 (see note 25).

SUBSIDIARY COMPANIES:

- (a) Under the requirements of the Australian Corporations Act (Cth) 2001, a subsidiary company incorporated in Australia has undertaken to meet any shortfall which may arise on the winding up of certain controlled entities in the event they are insolvent.
- (b) Feltex has a contingent liability in respect of the sale of property sold in February 2000, to share to the extent of 50% any costs above A\$220,000 (June 2003: A\$220,000, June 2002: A\$220,000) to reinstate any environmental damage existing at the date of sale.

22. TRANSACTIONS WITH RELATED PARTIES

All members of the Feltex Group are considered to be related parties of Feltex. This includes the subsidiaries and associated entities identified above in note 12.

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

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

During the period Feltex paid legal fees of \$96,363 (June 2003 \$118,069, June 2002 \$240,973) to Clendon Feeney, a firm in which Mr. C.E. Horrocks, a Director, was a partner. The fees were charged on normal terms and conditions.

23. SEGMENT INFORMATION

	NEW ZEALAND			AUSTRALIA*			USA			ELIMINATIONS			TOTAL		
	DEC 03 6 MTHS \$000	JUNE 03 12 MTHS \$000	JUNE 02 12 MTHS \$000	DEC 03 6 MTHS \$000	JUNE 03 12 MTHS \$000	JUNE 02 12 MTHS \$000	DEC 03 6 MTHS \$000	JUNE 03 12 MTHS \$000	JUNE 02 12 MTHS \$000	DEC 03 6 MTHS \$000	JUNE 03 12 MTHS \$000	JUNE 02 12 MTHS \$000	DEC 03 6 MTHS \$000	JUNE 03 12 MTHS \$000	JUNE 02 12 MTHS \$000
Geographical segments															
Sales	78,106	133,898	136,552	133,193	242,206	237,901	2,613	4,646	4,494	(42,254)	(67,338)	(57,383)	171,658	313,412	321,564
Interest revenue	6,061	12,376	13,594	21	874	355	-	-	-	(6,059)	(13,155)	(13,805)	23	95	144
Profit / (loss) on sale of property, plant & equipment	1	8	3	(28)	22	-	-	-	-	-	-	-	(27)	30	3
Government grants and rebates	-	-	-	1,406	815	795	-	-	-	-	-	-	1,406	815	795
Dividend received from associate company	-	-	-	283	-	-	-	-	-	-	-	-	283	-	-
Total operating revenue	84,168	146,282	150,149	134,875	243,917	239,051	2,613	4,646	4,494	(48,313)	(80,493)	(71,188)	173,343	314,352	322,506
Net surplus / (deficit)	6,644	10,454	(3,803)	5,228	(3,257)	(13,827)	(458)	(356)	(653)	-	-	-	11,414	6,841	(18,283)
Total assets	211,465	216,603	211,201	179,716	174,615	182,332	2,593	3,090	2,483	(146,154)	(145,370)	(167,484)	247,620	248,938	228,532

* For the 6 month period ended December 2003, the Australian operations recorded a net surplus before interest and income tax of \$11,721,000 (June 2003: \$11,292,000 June 2002: \$1,677,000).

24. FINANCIAL INSTRUMENTS

CREDIT RISK

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

Feltex manages exposure to credit risk.

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

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

Maximum exposures to credit risk at balance date were

	DEC 2003 \$000	JUNE 2003 \$000	JUNE 2002 \$000
Bank balances	1,193	3,449	-
Receivables	59,195	49,090	47,799
Financial guarantee:			
Bank facilities of an associate company	2,732	2,737	2,766
Interest rate swaps - amounts payable	(233)	(117)	(533)
Interest forward rate agreements - amounts payable	-	-	(342)

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 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 primarily transacts are US dollars, Great Britain pounds, Euros, Australian dollars and New Zealand dollars. Where exposures are certain, it is Feltex's policy to hedge these risks as they arise. For those exposures less certain in their timing and extent, such as future sales and purchases, it is Feltex's policy to cover a maximum of 50% of anticipated exposures for a maximum period of six months forward.

Feltex 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:

FOREIGN EXCHANGE CONTRACTS	DEC 2003 \$000	JUNE 2003 \$000	JUNE 2002 \$000
On foreign currency payables	13,783	24,958	26,337
On foreign currency receivables	28,001	328	8,500
On foreign currency term receivable	57,145	-	-

All third party foreign currency payables and receivables at 31 December 2003 were hedged.

INTEREST RATE RISK

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

	DEC 2003 \$000	JUNE 2003 \$000	JUNE 2002 \$000
Interest rate swaps	31,429	28,628	46,286
Forward rate agreements	-	-	11,571

Feltex has exposure to interest rate risk to the extent that it borrows or invests for a fixed term at fixed rates. Feltex 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 uses interest rate swaps and forward rate agreements to manage interest rate risk.

RE-PRICING ANALYSIS

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

DEC 2003	EFFECTIVE INTEREST RATE	TOTAL \$000	SIX MONTHS OR LESS \$000	BETWEEN 6-12 MONTHS \$000	BETWEEN 1-2 YEARS \$000	BETWEEN 2-5 YEARS \$000	GREATER THAN 5 YEARS \$000
Liabilities							
Commercial bills	6.37%	82,861	82,861	-	-	-	-
Debentures	-	2	-	-	-	2	-
Term loan	6.20%	3,300	-	-	-	3,300	-
Bonds	10.25%	60,000	-	-	-	60,000	-
Finance lease	8.20%	1,149	-	-	-	1,149	-
		147,312	82,861	-	-	64,451	-

JUNE 2003

Liabilities							
Commercial bills	6.37%	85,882	74,431	11,451	-	-	-
Debentures	-	2	-	-	-	2	-
Term loan	6.20%	3,436	-	-	-	3,436	-
Bonds	10.25%	60,000	-	-	-	-	60,000
Finance lease	8.20%	1,255	-	-	-	1,255	-
		150,575	74,431	11,451	-	4,693	60,000

JUNE 2002

Liabilities							
Bank loan	10.13%	19,000	19,000	-	-	-	-
Commercial bills	9.51%	124,508	66,652	28,928	28,928	-	-
Debentures	-	4	-	-	-	4	-
		143,512	85,652	28,928	28,928	4	-

CREDIT FACILITIES

Feltex Carpets Group has a total Bank facility as follows:

	DEC 2003 \$000	JUNE 2003 \$000	JUNE 2002 \$000
Commercial bill facility / term loan	94,289	97,334	151,296

FAIR VALUES

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

	CARRYING AMOUNT DEC 2003 \$000	FAIR AMOUNT DEC 2003 \$000	CARRYING AMOUNT JUNE 2003 \$000	FAIR AMOUNT JUNE 2003 \$000	CARRYING AMOUNT JUNE 2002 \$000	FAIR AMOUNT JUNE 2002 \$000
Interest rate swaps - amounts (payable) / receivable	(233)	42	(117)	4	(255)	63
Interest forward rate agreements - amounts (payable) / receivable	-	-	-	-	(146)	9

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 value of Feltex's term liabilities and investments is estimated based on the current market rates available to Feltex for items of a similar nature.

FOREIGN CURRENCY FORWARD EXCHANGE CONTRACTS

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

INTEREST RATE CONTRACTS

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

FINANCIAL GUARANTEES

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

25. EVENTS AFTER BALANCE DATE

WOVEN PLANT RESTRUCTURE

Subsequent to 31 December 2003 the Group restructured its woven carpet operations in response to a decrease in the demand for woven carpet. In the year ending 30 June 2004, Feltex forecasts that the one-off cost of the restructuring will be \$2.8 million.

RUBBER PLANT CLOSURE

The Board has taken a decision to cease the production of rubber underlay and close its manufacturing plant in May 2004. The estimated costs associated with the closure of the rubber underlay plant are \$1.4 million and are expected to be incurred in the period ending 30 June 2004.

TAX CONSOLIDATION

The Board is currently determining whether to enter the Australian tax consolidation regime and expects to take action to do so for the financial year ending 30 June 2004. The potential benefit to be derived is dependent upon valuations for non-current assets which are in progress at the date of these accounts. Preliminary estimates indicate that the potential benefit of \$1.9 million will be derived. This will result in future income tax benefits increasing by this amount that will be realised over the remaining useful life of the relevant fixed assets.

GUARANTEE OF BANK FACILITIES

The Group has withdrawn the guarantee of bank facilities of an associate company from 1 April 2004, referred to in note 21. The Group has been released from all obligations under the guarantee.

BOND RECEIPTS

Subject to the Offer successfully closing, the Bonds will be paid out in full and the Early Redemption Amount will be paid in accordance with the Trust Deed.

ANZ FACILITY

A new debt facility has been entered into with Australia and New Zealand Banking Group Limited and ANZ Banking Group (New Zealand) Limited, which will take effect upon the Offer successfully closing.

REVALUATION OF LAND AND BUILDINGS

Subsequent to 31 December 2003, land and buildings have been revalued based on independent valuations as at March 2004 resulting in an increase in fixed assets of \$15.4 million.

FAIR VALUE OF LAND AND BUILDINGS	\$000
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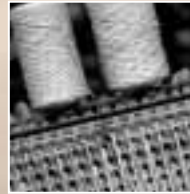
Land	22,075
Buildings	25,148

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

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

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





Answers to
important questions



WHAT SORT OF INVESTMENT IS THIS?

The Offer

The Vendor and Feltex are offering 139,164,126 to 142,934,865 Shares in Feltex (based on the Indicative Price Range of \$1.70 to \$1.95 per Share).

The Vendor is offering to sell 113,523,099 existing Shares and one further Share, which will be issued by way of a taxable bonus issue prior to the close of the Offer. Feltex is offering \$50 million of new Shares (being 25,641,026 to 29,411,765 Shares based on the Indicative Price Range).

The Offer comprises the Public Offer, firm allocation to NZX Firms and to institutional investors, the Enhanced Priority Offer and the Priority Offer, full details of all of which are set out under the heading 'Details of the Offer' on pages 21 to 32 of this Offer Document.

The terms of the new Shares will be identical to the terms of the existing Shares on issue and the new Shares will on issue rank equally in all respects with the existing Shares at the date on which they are issued.

Share split

On 27 April 2004, Feltex undertook a 6.15 for 1 Share split, resulting in the number of fully paid Shares increasing from 19,505,095 to 119,999,999. Prior to the closing of the Offer it is intended Feltex will undertake a taxable bonus issue, issuing one new Share to the Vendor.

No adverse tax implications arise to Feltex as a consequence of the Share split or taxable bonus issue. The Share split and taxable bonus issue have no cash effect on Feltex.

Overseas investors

The Offer (excluding the Enhanced Priority Offer and the Priority Offer) is only made to members of the public in New Zealand and to institutional investors in New Zealand, Australia (being persons that do not require an Australian Prospectus under section 708 of the Corporations Act (Cth) 2001) and potentially elsewhere. The Enhanced Priority Offer and the Priority Offer are only being made to Bondholders with New Zealand

addresses. No person may offer, invite, sell or deliver any Shares or distribute any documents (including this Offer Document) to any person outside New Zealand except in accordance with all of the legal requirements of the relevant jurisdiction. Unless otherwise agreed with the Vendor and Feltex, any person or entity subscribing for Shares in the Offer will, by virtue of such subscription be deemed to represent that he, she or it is not in a jurisdiction that does not permit the making of an offer or invitation of the kind contained in this Offer Document and is not acting for the account or benefit of a person within such a jurisdiction. None of the Promoter, Vendor, Feltex, the Joint Lead Managers, the Organising Participants, the Co-Managers nor any of their respective directors, officers, employees, consultants, agents, partners or advisers accepts any liability or responsibility to determine whether a person is able to participate in the Offer.

Shares

Each Share gives the holder the right to:

- (a) attend and vote at a meeting of Feltex including the right to cast one vote per Share on a poll on any resolution including but not limited to a resolution to:
 - appoint or remove a director or auditor;
 - adopt, revoke or alter Feltex's constitution;
 - approve a major transaction;
 - approve the amalgamation of Feltex under section 221 of the Companies Act 1993; and
 - place Feltex in liquidation;
- (b) an equal share in any distribution, including dividends, authorised by the Board;
- (c) an equal share with other ordinary shares in the distribution of surplus assets in any liquidation of Feltex;
- (d) be sent certain Feltex company information; and
- (e) the other rights as a Shareholder conferred by the Companies Act 1993 and Feltex's constitution.

Dividends

Details of Feltex's proposed dividend policy are set out under 'What returns will I get?' in this section of this Offer Document.

New Zealand Exchange listing

Application has been made to NZX for permission to list the Shares under the symbol 'FTX'. All requirements of NZX relating thereto that can be complied with on or before the date of this Offer Document have been duly complied with. However, NZX does not accept any responsibility for any statement in this Offer Document. Initial quotation of the Shares on the NZSX is expected to occur on Friday, 4 June 2004. NZX has authorised NZX Firms to act on this Offer.

Constitution

The list below sets out some of the more material features of the constitution. It is not an exhaustive list of such features. In addition, the constitution of Feltex incorporates by reference the requirements of NZX. The constitution is available for inspection by prospective investors on the Companies Office website at www.companies.govt.nz. A description of the requirements of NZX can be found at NZX website www.nzx.com.

Restrictions on Directors' powers to issue Shares or options which are convertible or exchangeable into Shares

The Directors may issue equity securities with Shareholder approval by ordinary resolution and without Shareholder approval if made pro-rata to existing Shareholders or under certain permitted procedures.

Board has limited power to authorise Directors' remuneration

The Board's power to authorise payment of remuneration by Feltex to a Director (in his or her capacity as a Director) is subject to the prior approval of Shareholders by ordinary resolution.


Feltex acquiring, or providing financial assistance to purchase, its own Shares

Feltex may acquire its own Shares, or provide financial assistance in connection with the purchase of its own Shares, provided that prior approval is obtained from Shareholders by ordinary resolution of each separate group of each class of Shares having rights and entitlements that are materially affected in a similar way by the acquisition or provision of financial assistance or that the acquisition or provision of financial assistance is effected on a pro-rata basis to existing holders or that certain other circumstances exist. Before the acquisition or provision of financial assistance, Feltex must also satisfy the solvency test under the Companies Act 1993, and the Board must resolve that the assistance is in the best interests of Feltex and that the terms and conditions under which the acquisition or assistance is given are fair and reasonable to Feltex. Where the financial assistance is being provided by Australian subsidiaries of Feltex, the Australian Corporations Act 2001 (Cth) must also be complied with.

Restricted transactions

Feltex's constitution requires the approval of Feltex's Shareholders by ordinary resolution for the following:

- (a) any transaction or series of linked or related transactions to acquire, sell, lease, exchange or otherwise dispose of (otherwise than by way of charge) assets of Feltex or assets to be held by Feltex in respect of which the gross value is in excess of 50% of the average market capitalisation of Feltex;
- (b) any transaction that will change the essential nature of Feltex's business; or
- (c) material transactions (generally those having a net value in excess of 5% of the average market capitalisation of Feltex) entered into by any member of Feltex with, or for the benefit of, the Directors of any company in the Feltex Group, substantial Shareholders or their associates unless that material transaction is an employment agreement with a person who is not a Director within the meaning of section 126 of the Companies Act 1993.



In addition, section 129 of the Companies Act 1993 requires Shareholder approval by special resolution prior to Feltex entering into any transaction (whether by way of an acquisition, disposition or otherwise) involving more than half the value of Feltex's assets before the acquisition, disposition or otherwise.

Feltex's constitution also requires the approval of Shareholders, by ordinary resolution, for any issue of Shares that would materially increase the ability of any person or group of associated persons to exercise effective control of Feltex.

Minority buy out rights

If, by special resolution, Feltex resolves to:

- (a) alter or revoke its constitution in a way which imposes or removes a restriction on the activities of Feltex;
- (b) approve a major transaction; or
- (c) approve a statutory amalgamation,

any Shareholder voting all their Shares against the resolution is entitled to require Feltex to purchase, or to arrange for another person to purchase, the Shares of that Shareholder for a fair and reasonable price nominated by Feltex or, if the Shareholder objects to such a price, a price determined by arbitration.

Takeovers Code

The Takeovers Code prohibits any person (together with their Associates (as defined in the Takeovers Code)) from becoming the holder or controller of 20% or more of the voting rights in Feltex other than in compliance with the requirements of the Takeovers Code. Investors are advised to seek legal advice in relation to any act, omission or circumstance which may result in that investor breaching any provision of the Takeovers Code.

Overseas Investment Commission

Any person who is an Overseas Person for the purposes of the Overseas Investment Regulations 1995

and who intends to acquire more than 25% of the Shares of Feltex will be required to obtain the consent of the relevant Minister of the Crown before acquiring those Shares, in accordance with section 14B of the Overseas Investment Act 1973 and Regulation 8 of the Overseas Investment Regulations.

Foreign Investment Review Board

Acquisitions of Shares in Feltex may potentially be subject to Australia's foreign investment policy (because of Feltex's control of a number of Australian entities). Generally, the Foreign Acquisitions and Takeovers Act 1975 (Cth) ('FATA') applies to acquisitions of shares and voting power in a company of 15% or more by a single foreign person and its associates or 40% or more by two or more foreign persons and their associates. 'Associates' is defined broadly in FATA and includes (without limitation) relatives and persons who are connected directly and indirectly through directorships or 15% or more shareholding interests. Where an acquisition meets the above criteria, the acquisition may not occur unless notice of it has been given to the Federal Treasurer and the Federal Treasurer has stated that there is no objection to the proposed acquisition in terms of Australia's foreign investment policy (or a period has expired without the Federal Treasurer so objecting). An acquisition in breach of the policy may lead to divestment orders being made.

Other terms of the Offer

The above is a simplified and general description of some of the rights and obligations of Feltex Shareholders. All terms of the Offer and the Shares, except those rights and obligations implied by law, are set out in this Offer Document and Feltex's constitution, both of which are available for public inspection at Feltex's registered office, 7th Floor, Feltex Centre, 145 Symonds Street, Auckland and free of charge on the Companies Office website at www.companies.govt.nz.

WHO IS INVOLVED IN PROVIDING IT FOR ME?

Issuer

Feltex Carpets Limited (registered number 828025) is the issuer of the Shares and is offering to issue \$50 million of new Shares under the Offer (being 25,641,026 to 29,411,765 million Shares based on the Indicative Price Range). Feltex was incorporated in New Zealand on 25 September 1996 and can be contacted at its registered office, which is located at 7th Floor, Feltex Centre, 145 Symonds Street, Auckland, New Zealand.

The Vendor is offering to sell 113,523,099 existing Shares held by it and one further Share which will be issued via a taxable bonus issue prior to the close of the Offer. Accordingly, the Vendor is also an issuer of the Shares. The Vendor can be contacted care of the Promoter at Eleven Madison Avenue, 16th Floor, New York, NY 10010, United States of America (Attention: General Counsel).

Promoter

The Promoter of the Shares is Credit Suisse First Boston Private Equity, Inc. The address of the Promoter is Eleven Madison Avenue, 16th Floor, New York, NY 10010, United States of America (Attention: General Counsel).

Activities

The principal activities of Feltex are described under the heading 'Business Description' on pages 41 to 51 of this Offer Document.

HOW MUCH DO I PAY?

The Indicative Price Range of \$1.70 to \$1.95 per Share has been set by the Vendor and Feltex in consultation with the Joint Lead Managers.

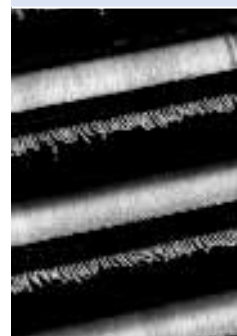
The Vendor and Feltex, in consultation with the Joint Lead Managers, will set the Final Price on or before Monday, 24 May 2004 following the book build process described below. The Vendor and Feltex reserve the right to set the Final Price outside the Indicative Price Range. However, the Retail Price will not be greater than \$1.95 per Share.

Between Wednesday, 19 May 2004 and Friday, 21 May 2004 the Joint Lead Managers will undertake a book build process inviting NZX Firms and institutional investors in New Zealand, Australia and potentially elsewhere, to submit bids indicating the number of Shares they wish to apply for at a range of prices. This book build process, in conjunction with demand from other investor classes at the close of the book build process, will be used to assist the Vendor and Feltex, in consultation with the Joint Lead Managers, to determine the Final Price.

Shares allocated under the book build process (other than those allocated to NZX Firms under firm allocation) will be allotted at the Final Price. Shares allocated under the Public Offer (except those allocated to Feltex Employees) or to NZX Firms under firm allocation will be allotted at the Retail Price, being the lesser of the Final Price and \$1.95 per Share. Shares allocated to Feltex Employees or to Bondholders under the Enhanced Priority Offer and the Priority Offer will be allotted at 95% of the Retail Price. To the extent possible, all Shares allotted by Feltex in the Offer will be allotted at the Final Price. The Final Price will be set prior to 10.00am on Monday, 24 May 2004 taking into account various factors, including the following:

- the overall demand profile for Shares at various prices;
- pricing indications from institutional investors and NZX Firms under the book build process;
- the level of demand for Shares from applicants under the Enhanced Priority Offer, the Priority Offer and the Public Offer;
- the desire of the Vendor and Feltex to have an orderly and successful aftermarket for the Shares; and
- any other factors the Vendor, Feltex and the Joint Lead Managers consider relevant.

The Final Price and Retail Price will be released to the market through NZX and will be subsequently announced by a press release to the media and posted





The number of Shares offered pursuant to the Offer cannot be determined until the Final Price is set. Therefore, all applications for Shares under the Offer should be made on a dollar value basis. The number of Shares allotted to an investor will be rounded to the nearest whole Share, and no refund will be given by, or payment made to, the Vendor or Feltex for any difference resulting solely from rounding.

Applications pursuant to firm allocation or from general Public Offer applicants must be for a minimum of \$2,500 of Shares. Applications from Feltex Employees, Eligible Feltex Retailers, Suppliers and Contractors on their prescribed forms must be for a minimum of \$1,000 of Shares. Applications under the Enhanced Priority Offer must be for all of a Bondholder's Bonds as at Friday, 21 May 2004. Applications under the Priority Offer must be for a minimum of \$500 of Shares.

Applications to subscribe for Shares under the Offer must be made on the application form in accordance with the application instructions and must be accompanied by payment in full in New Zealand dollars. Cheques should be made payable to 'Feltex Share Offer' and crossed 'Non-transferable'. No cash is payable by Bondholders participating in the Enhanced Priority Offer. Payment for Shares received under the Enhanced Priority Offer will be effected by the Bondholders directing the Bond Trustee to pay to the Vendor the face value of their Bonds, payable to the Bondholders by Feltex as part of the Call Exercise Price to be paid on redemption of the Bonds. Full details of the Enhanced Priority Offer are set out under the heading 'Enhanced Priority Offer' on pages 23 and 25 of this Offer Document. Applications must be forwarded to:

Feltex Carpets Limited
c/- Computershare Investor Services Limited
Level 2
159 Hurstmere Road
Private Bag 92119
Auckland

or to any NZX Firm or to one of the Organising Participants, in sufficient time for the application to be

forwarded to and received by the Share Registrar by the applicable closing date as set out on page 22 of this Offer Document. If an applicant fails to make payment for the Shares under the Offer or an applicant's cheque fails to clear, then the entitlement of that applicant to apply for Shares may be cancelled, or any allotment of Shares to the applicant may be reversed.

Applications to subscribe for Shares under the Enhanced Priority Offer and the Priority Offer must be made on the prescribed application form for Bondholders, in accordance with the application instructions set out with that application form.

Further information on how to apply for Shares is set out under the heading 'Instructions and Application Forms' on page 148 of this Offer Document.

WHAT ARE THE CHARGES?

Applicants are not required to pay any charges to the Vendor or Feltex [or any other person] in relation to the Offer, other than the price of each Share allotted to them.

Details of the fees and expenses incurred in respect of the Offer and payable by the Vendor and Feltex are set out under the heading 'Statutory Information' on page 139 of this Offer Document. Those expenses are estimated to be approximately \$21.7 million.


WHAT RETURNS WILL I GET?

Shares

The income and gains of Feltex may either be retained by Feltex or distributed. Shareholders will be entitled to receive or benefit from any dividends paid by Feltex in the manner described below and to any other returns attaching to the Shares. Shareholders may also benefit from any increase in the market price of their Shares if they sell them (after deducting any brokerage and other expenses). The market price of Shares may also decline.

Dividend policy





Feltex's dividend policy is to declare dividends after due consideration of the current and projected operating performance, financial position, cash flows and capital requirements of Feltex at the time of declaration of the dividend. Subject to these considerations, the Board intends to declare dividends in the order of 75% to 80% of the net surplus after income tax (before amortisation and equity earnings of associates), payable as follows:

- the interim dividend will be announced in conjunction with the interim result in mid February and will be payable in early March; and
- the final dividend will be announced in conjunction with the annual result in August and payable in early October.

The Board of Directors reserves the right to amend the dividend policy at any time.

Details of dividends projected for the year ending June 2004 and projected for the year ending June 2005 are set out under the heading 'Summary Pricing Table' on page 11 of this Offer Document and under the heading 'Prospective Financial Information' on pages 85 to 92 of this Offer Document.

In the Deed of Amendment and Restatement of Facility Agreement, Feltex undertakes to each of Australia and New Zealand Banking Group Limited and ANZ Banking Group (New Zealand) Limited not to pay a dividend (without those entities' consent) if the ratio of total debt to EBITDA exceeds 3.20 times at any time on or before June 2007. Feltex is also constrained under the Deed of Amendment and Restatement of Facility Agreement from paying a dividend if it is in default of its banking facilities.

Foreign Investor Tax Credit Regime

Feltex intends to use the New Zealand Foreign Investor Tax Credit ('FITC') regime for the benefit of non New Zealand tax resident investors. Under this regime Feltex is able to pay an additional or 'supplementary' dividend to non New Zealand resident Shareholders, which effectively negates the impact of New Zealand non-resident withholding tax. By utilising the FITC

regime non New Zealand resident Shareholders receive the same amount of cash (post withholding tax) as New Zealand resident Shareholders. The supplementary dividend is funded by a tax credit made available to Feltex. The amount of the tax credit made available is equal to the amount of the supplementary dividend.

Returns

The key factors that determine the returns are:

- market prices for Shares;
- the Board's decisions in relation to distributions;
- applicable taxes; and
- reserves and retentions.

Nothing contained in this Offer Document should be construed as a promise of profitability, and Feltex can give no assurance about the level or frequency of distributions, if any, the level of imputation credits or the level of supplementary distributions. These levels will depend on a number of factors, including those discussed under the heading 'What are my risks?' on pages 125 to 130 of this Offer Document. The factors described in that section could reduce or eliminate the distributions or other returns intended to be derived from holding the Shares.

New Zealand taxes may affect the return to investors. Distributions will be subject to New Zealand withholding and final taxes but the investor's liability in respect of such taxes may be reduced or satisfied to the extent the distributions have imputation credits attached. Wherever possible, distributions paid by Feltex will have the maximum allowable imputation credits attached. In some cases, gains on the sale of Shares may be taxable.

Bondholders who are tax resident in New Zealand and who participate in the Enhanced Priority Offer will be required to perform a base price adjustment ('BPA') under the New Zealand accrual rules relating to financial arrangements. The BPA is required to be calculated in the income year the Bonds are called by Feltex. Under the BPA, interest paid for the period to 21 May 2004 and the Early Redemption Amount will be

taxable to Bondholders who participate in the Enhanced Priority Offer.

Feltex Employees who acquire Shares under the Public Offer at a discount to the Retail Price will derive a taxable benefit equal to the amount of the discount. This benefit is taxable in the income year the Shares are acquired. The taxable benefit per Share is the difference between the value of the Share on the date it is acquired (i.e. the Retail Price), and the amount paid for the Share. The resulting taxable benefit must be included as gross income in the Feltex Employee's tax return for the income year ending 31 March 2005. In some cases this may result in the Feltex Employee concerned having provisional tax obligations for the 2005 income year.

The above comments and the descriptions referred to are of a general nature only. They do not constitute tax or legal advice. Persons considering the purchase, ownership or disposition of Bonds or Shares should consult their own tax advisers, in light of their particular situation.

Feltex is the entity legally liable to pay any distributions on the Shares described in this section.

If you sell any of your Shares, the purchaser of those Shares will be legally liable to pay you the sale price of those Shares.

None of the Vendor, Feltex nor any other person guarantees or promises the return of capital or any amount of any returns in relation to the Offer or the Shares. The dates, frequency and quantum of any returns are unknown.

WHAT ARE MY RISKS?

The principal risk for investors is that of being unable to recoup their original investment. This could happen for a number of reasons, including in the event that:

- the price at which investors are able to sell their Shares is less than the price they have paid for their Shares;
- they are unable to sell their Shares at all; or

- Feltex is placed in receivership or liquidation.

Investors could receive no returns if Feltex becomes insolvent for any reason.

The future market price of the Shares may be less than the price paid for them and returns on the Shares (including distributions) may be less than anticipated. Some of the principal factors which may affect Feltex's Share price performance are detailed in this section of this Offer Document.

There are a number of factors which may have a significant impact on the future performance of Feltex. This Offer Document does not take account of the personal circumstances, financial position or investment requirements of any one investor in particular.

It is therefore imperative that before making any investment decisions, investors give consideration to the suitability of Feltex in light of their investment needs, objectives and financial circumstances.

Applicants for Shares should consider carefully the following risk factors, in addition to the other information in this Offer Document, before purchasing Shares.

Risks relating to the carpet industry and to the business of Feltex

Competition

The floor coverings industry in both New Zealand and Australia is highly competitive. Feltex has responded to actual and anticipated competitive pressures by investing in new technology, by developing new and innovative product ranges, by seeking to improve production planning, stock availability and after-sales service and by seeking to grow its market share in those segments of the market with higher growth and profit potential. However, the ability of Feltex to change or maintain the relative pricing of its products or to parallel industry spending on product development, marketing and sales in a profitable manner is dependent on the competitive actions of other manufacturers. There is no guarantee that Feltex will be





able to increase the wholesale selling price of carpets in the future or maintain the current wholesale price.

There can be no assurance that changes in the competitive environment will not have a material adverse effect on Feltex's results or financial position.

Market change

The carpet market is strongly driven by the level of construction and renovation activity in the building industry. Construction and renovation activity is significantly affected by a number of factors beyond Feltex's control, including the general economic climate, interest rates, housing demand, employment levels, changes in disposable income, financing availability, commercial and residential rental vacancy rates, business expenditures, taxation policies and consumer confidence. A downturn in construction or renovation activity could have a material adverse effect on Feltex's results or financial position.

In the past, one-off events such as the construction boom preceding (and the reduction following) the Sydney Olympics, the introduction of GST in Australia and the First Home Owners Grant in Australia have all had a noticeable impact on the carpet market and Feltex's results and financial position.

The size and design requirements of the carpet market are also subject to changes in trends and fashion, and one-off events. For example, over the past 10 years, the popularity of hard floor surfaces has increased. This trend has slowed the growth in the residential carpet market, although this slowdown has been partially offset by an increase in the overall size of residential dwellings. There can be no assurance that trends in flooring will not change to further favour alternative floor covering products or that such change will not have a material adverse effect on Feltex's results or financial position.

Exchange Rate fluctuations

In addition to the possible impact on imports (described below), exchange rate fluctuations impact the cost of Feltex's imported raw material purchases (primarily nylon, polypropylene and backing materials)

which are predominantly denominated in United States dollars. An appreciation of the United States dollar against the Australian dollar and/or New Zealand dollar would increase Feltex's cost of raw materials. Feltex has a partial natural hedge to movements in the United States dollar via its export carpet and wool yarn sales to the United States which are denominated in United States dollars.

Feltex's principal sales market is Australia. Any appreciation in the New Zealand dollar against the Australian dollar adversely impacts the margin of Feltex's New Zealand manufactured woollen product sold in the Australian market. Feltex's major competitors have manufacturing plants in New Zealand and are subject to similar exchange rate risks. As Feltex also remits funds from its Australian business to New Zealand, Feltex is also exposed to movements in the Australian dollar / New Zealand dollar exchange rate.

Feltex's exchange rate exposure is reviewed on a regular basis. In almost every circumstance where currency exposures arising from operating costs and revenue are certain, it is Feltex's policy to hedge these risks as they arise. For those currency exposures which are less certain as to timing and extent, such as future sales and purchases, it is Feltex's current policy to cover a maximum of 50% of the anticipated exposures for a period of six months forward with the balance of such exposure reviewed when it is incurred.

There can be no assurance that changes in exchange rates will not have a material adverse effect on Feltex's results or financial position.

Imports

Feltex is subject to competition from imports. The likelihood of a change in the level of imports into Australasia is dependent on a number of factors, including movements in tariffs, exchange rates and the cost of production in exporting countries. A significant appreciation in the Australian and/or New Zealand dollars relative to other currencies and/or a reduction in tariffs would be favourable to importers.

In Australia, tariffs are scheduled to decrease from

15% to 10% on 1 January 2005 and from 10% to 5% on 1 January 2010. In addition, the Australia US Free Trade Agreement will reduce those tariffs by a further 2% for imported product from the United States. A tariff reduction programme has also been announced by the New Zealand Government. Under that programme, tariffs are expected to reduce from 17% to 15% in 2007, to 12.5% in 2008 and to 10% in 2009.

It is not possible to predict with certainty likely future movements in the strength of the Australian or New Zealand exchange rates or that the scheduled tariff reductions will occur at the rate and within the time periods expected.

Feltex believes that there are a number of factors that act as effective barriers to a significant increase in imports at current exchange rates – including the requirements for an effective distribution system, timely availability of product and after-sales service.

The majority of carpets imported into Australasia are carpets made from man-made fibre and/or woven carpets. Feltex's exposure to the importation of carpets made from man-made fibre is mitigated by the Shaw Product Representation Agreement, which gives Feltex the ability to import carpet from Shaw Industries, Inc. at competitive wholesale prices. Although these barriers to entry and this mitigation strategy exists, the import of significant carpet volumes into the Australasian market could have a material adverse effect on Feltex's results or financial position.

Commodity availability and price fluctuations

Feltex purchases significant quantities of raw materials for its products (for example, wool, nylon and yarn) from external parties.

Both the availability and price of these materials is subject to change. For example, an increase in world oil prices may translate into an increase in the price of nylon, solution dyed nylon and polypropylene, which are key inputs in the man-made fibre carpet manufacturing process.

Feltex endeavours to mitigate the risk of product

availability by building strong relationships with key suppliers.

Feltex may be unable to pass on to its customers any increases in the costs of raw materials, particularly in the short term. A substantial change in the availability or price of these materials could have a material adverse effect on Feltex's results or financial position.

Disruption of operations

Feltex's manufacturing plants are exposed to the risk of natural and other disasters as well as other similar events outside the control of Feltex. By way of example, the floods in the lower half of the North Island of New Zealand in early 2004 affected a number of Feltex's operations in that region for a short period.

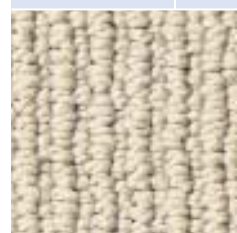
Because aspects of Feltex's operations are interdependent, an interruption at one site can have flow-on consequences to other sites. Feltex mitigates the risk of an individual event by having similar manufacturing processes located at a number of different plants in both Australia and New Zealand.

With the exception of the Christchurch woven operation, in general, an interruption at one plant can be covered by available capacity at another plant or through other suppliers, although the latter could cause a short-term delay in product availability. Feltex has contingency plans for site specific events and maintains insurance cover, including business interruption insurance.

However, an extended site outage or loss of capacity at multiple facilities could have a material adverse effect on Feltex's results or financial position.

Equipment, machinery and systems reliance

Feltex's manufacturing operations are reliant on its equipment, machinery and systems. Feltex has a maintenance programme in place to enhance the reliability of its equipment, machinery and systems and invests in new technology and plant and equipment, as and where it is commercially expedient to do so. Any deterioration in the reliability of, or prolonged failure in, Feltex's equipment, machinery or systems could materially and adversely impact on Feltex's results or financial position.





Technology changes

Competitive advantage in the carpet manufacturing industry can be gained through utilising new technology. Feltex mitigates the risk of a competitor gaining advantage through technology by monitoring global production methods and investing in the latest machinery and technology that Feltex believes will offer sufficient competitive advantage to merit the investment. The Shaw Training Technology and Technical Support Agreement also provides Feltex with an exclusive regional ability to keep abreast of developments in manufacturing and design processes. However, a significant improvement in manufacturing technology utilised by a competitor of Feltex could have a material adverse effect on Feltex's results or financial position.

Labour relations

Feltex has a number of collective employment agreements in place across its various manufacturing and distribution plants in New Zealand and Australia. Approximately 69% of Feltex's total workforce have a union affiliation. In New Zealand, Feltex has in place single-site agreements covering each plant on an individual basis. In Australia, textile employees are covered by an enterprise wide agreement and other employees are covered by individual site agreements. The collective agreements that are currently in place expire at various dates. The key union agreement in Australia (the Feltex Australia Enterprise Agreement with the Textile, Clothing and Footwear Union of Australia) expires in August 2004. Current relations with employees and the union are good and Feltex does not expect its operations to be disrupted as a result of any negotiations for the renewal of this agreement. However, Feltex has in the past experienced industrial disruption. For example, the negotiation of the Feltex Australia Enterprise Agreement in 2001 was volatile culminating in a five week strike in Australia. There can be no assurance that Feltex will not experience industrial disruption that may have a material adverse effect on its results or financial position.

Key relationships with customers and suppliers

Feltex's business and growth opportunities are dependent on key customer relationships (a small number of whom make up a large proportion of Feltex's revenues), and key supplier relationships. The ability to retain and develop these relationships in a competitive environment and the ability of key customers to pay for product ordered on a timely basis have a material effect on the conduct of Feltex's business. Consistent with industry practice, many of these relationships typically are not formalised through long-term legal arrangements. Consequently, there is no certainty that current key customer and supplier relationships will continue to be successful or maintained on similar terms, and/or that if such relationships did not continue they could be satisfactorily replaced. Feltex is not aware of any impending issue that may lead to the termination of, or adverse changes to, any of these relationships.

Changes to these relationships could have a material adverse effect on Feltex's results or financial position.

Reliance on key personnel

Feltex will continue to rely on its key personnel for effectively managing Feltex's operations. Feltex is not aware of any impending loss of key personnel. It is intended that, prior to closing of the Offer, the Senior Managers will enter into two-year retention agreements with Feltex (except the Chief Executive Officer who it is intended will, prior to closing of the Offer, enter into a two and a half year retention agreement with Feltex). As a further incentive, Feltex has established an option scheme for Senior Managers which aligns the interests of Shareholders and Senior Managers.

If Feltex loses the services of key individuals and is unable to replace them, this could have a short-term adverse effect on its operating and/or financial performance.

Regulatory risk

Feltex must comply with resource management, environmental and hazardous substances legislation in relation to its business. This legislation affects its manufacturing sites and the storage and use of carpet



manufacturing chemicals. There are potential costs arising from compliance with such regulations, (particularly in the event that a breach of any such regulations or any related consents occurs), new consents being required, or equipment needing to be upgraded to meet the applicable environmental standards. By way of example, the fuel used by the boilers at the Tottenham plant is no longer available and the boilers are currently burning coal under a temporary permit. The coal-fired boilers will be replaced. The expected capital expenditure for this has been included in the prospective financial information.

A number of Feltex's sites have been identified as having potential contamination issues (for example, the presence of PCBs, CFCs and asbestos). In addition, Feltex is aware of instances of non-material actual, potential or alleged non-compliance with some applicable resource consents or local authority conditions or requirements. Feltex is addressing these instances. Such matters are not atypical of a business operating manufacturing processes of the kind conducted by Feltex. Feltex has a policy to address any known or suspected regulatory concerns immediately, and preferably prior to the involvement of any regulatory authority. Further, Feltex maintains a compliance programme in relation to such matters. Feltex is not aware of any formal action on the part of any enforcing local authority in relation to such issues, which would or could have a material adverse effect on Feltex's results or financial position.

Performance-related risks

Feltex provides certain limited warranties for periods of up to 15 years on various products. Also, from time to time Feltex is required to provide warranties and indemnities to consumers in respect of carpet supplied under various contracts (particularly for the supply of carpet to the commercial market).

General business risks

Taxation

Any change in tax legislation or the current rate of company income tax in each jurisdiction in which Feltex is subject to tax will impact on Feltex's returns.

Any new tax which is introduced (e.g., a carbon tax) may also impact on Feltex's results or financial position. Any change to the current rates of income tax applying to individuals, companies and/or trusts similarly will impact on Shareholders' after tax returns. Any reassessment of Feltex's historic tax liabilities could have a material adverse effect on Feltex's results or financial position. However Feltex considers the likelihood of such reassessment to be low.

Commercial and compliance

Feltex faces commercial risks such as competition, litigation, industrial disputes, operations risks, supply risks, and occupational health and safety issues and liabilities. It also operates a number of activities which can be impacted by changes in laws or government policies. Feltex seeks to manage these risks by implementing a range of formal and informal compliance programmes, procedures, training initiatives and audit processes.

Economic conditions

General economic factors such as economic activity, inflation, currency fluctuations, industrial disruption (e.g. a strike in the transport industry), interest rate fluctuations, commodity prices, consumer confidence, stock market prices and changes in government policy, regulations or legislation may have a material adverse effect on Feltex's results and/or financial position.

Other risks

Forward-looking statements

Certain statements in this Offer Document constitute forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Feltex, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include but are not limited to, among other things, exchange rates, reliance on equipment, general economic and business conditions, consumer preferences or sentiment, adverse product publicity,





distribution arrangements, termination of key strategic relationships, failure of new initiatives, competition, the continued input of key personnel and other factors referred to in this Offer Document.

Given these uncertainties, investors are cautioned not to place undue reliance on such forward-looking statements in this Offer Document. In addition, under no circumstances should the inclusion of such forward-looking statements in this Offer Document be regarded as a representation or warranty by the Vendor, Feltex or any other person with respect to the achievement of the results set out in such statements or that the assumptions underlying such forward-looking statements will in fact be true.

Absence of market for Shares and volatility of Share price

Prior to the Offer there has been no public market for the Shares. There can be no assurance that an active trading market will develop for the Shares or that the Shares will trade in the public market subsequent to the Offer at or above the Final Price.

The market price of the Shares following the Offer may be volatile. Factors such as competition, regulatory changes, operating surplus and cash flow, general trends in interest rates and currencies, New Zealand and international equity markets and the New Zealand economy, as well as other factors, could cause the market price of the Shares to fluctuate. Such fluctuations may have a material adverse effect on the market price of the Shares.

Consequences of insolvency

In the event of the insolvency of Feltex, Shareholders will not be liable to anyone for payment of any monies. In these circumstances, Shareholders would not receive any return of capital until Feltex had paid all of its creditors, both secured and unsecured (see note 9 to the consolidated financial statements of the Feltex Group on page 105 of this Offer Document setting out the accounts payable and borrowings of Feltex),

including the costs of liquidation or receivership. Any assets remaining after the payments of debt would be distributed to Feltex's Shareholders in proportion to their respective shareholdings and may not be sufficient to repay the amount invested by Applicants in acquiring Shares under the Offer. There are no claims that will rank equally with the claims of shareholders.

CAN THE INVESTMENT BE ALTERED?

The full terms of the Offer are set out under the heading 'Details of the Offer' on pages 21 to 32 of this Offer Document. Neither the Vendor, Feltex, an investor nor any other person has the right to alter the consideration payable by an investor, described in the paragraph headed 'How much do I pay?' on page 121 of this Offer Document.

These terms are described under the headings 'What sort of investment is this?' and 'How much do I pay?' in this section of this Offer Document.

The rights attaching to Shares are governed by Feltex's constitution. That constitution may only be altered by a special resolution of Shareholders, subject to the rights of interest groups under the Companies Act 1993, or in certain circumstances by Court Order. Section 117 of the Companies Act 1993 restricts Feltex from taking any action which affects the rights attached to the Shares unless that action has been approved by a special resolution of Shareholders whose rights are affected by the action. Under certain circumstances a Shareholder whose rights are affected by a special resolution may require Feltex to purchase its Shares.

HOW DO I CASH IN MY INVESTMENT?

New Zealand Exchange listing

Application has been made to NZX for permission to list the Shares under the symbol 'FTX'. All requirements of NZX relating thereto that can be complied with on or before the date of this Offer Document have been duly complied with. However, NZX does not accept any responsibility for any statement in this Offer Document. Initial quotation of the Shares on the NZSX is expected to occur on Friday, 4 June 2004. NZX has authorised NZX Firms to act on this Offer.

Shares

Shares will be tradeable subject only to compliance with Feltex's constitution, the Takeovers Code, applicable securities laws and regulations, the Listing Rules, the Overseas Investment Regulations 1995, the Foreign Acquisitions and Takeovers Act 1975 (Cth) and the continuation of an active trading market. In Feltex's opinion a market for the Shares is likely to develop. As at the date of registration of this Offer Document, there is no established market for the Shares. No charges are payable to Feltex in respect of any sale of Shares. Any sale of Shares on the NZSX will attract normal brokerage fees.

Shares allotted in the Offer are expected to be quoted and tradeable from Friday, 4 June 2004. Applicants should not attempt to sell Shares until they know whether, and how many, Shares have been allotted to them. None of the Vendor, Feltex nor any person associated with the Offer, nor any of their respective directors, officers, employees, consultants, agents, partners or advisers, accepts any liability or responsibility should any person attempt to sell or otherwise deal with Shares before confirmation of the allotment of Shares is received by the applicant for those Shares.

Shareholder numbers

The existing common shareholder number of investors who currently hold New Zealand shares through Computershare Investor Services Limited will apply to the Shares. Investors who do not currently have a common shareholder number will receive a Shareholder number from Computershare Investor Services Limited and a FIN number by mail by Thursday, 10 June 2004 in the case of firm allocation applicants and by Friday, 28 May 2004 in the case of all other applicants.

WHO DO I CONTACT WITH ENQUIRIES ABOUT MY INVESTMENT?

Any enquiries about the Shares should be directed to any NZX Firm or:

Share Registrar
Computershare Investor Services Limited
Level 2
159 Hurstmere Road
Takapuna
Private Bag 92-119
Auckland 1020
Telephone: (09) 488 8700
Facsimile: (09) 488 8787

Chief Financial Officer
Feltex Carpets Limited
7th Floor
Feltex Centre
145 Symonds Street
Auckland
Telephone: (09) 379 1919
Facsimile: (09) 379 1911
Email: investor.relations@feltex.com


IS THERE ANYONE TO WHOM I CAN COMPLAIN IF I HAVE PROBLEMS WITH THE INVESTMENT?

Any complaints about the Shares can be directed to:

Share Registrar
Computershare Investor Services Limited
Level 2
159 Hurstmere Road
Takapuna
Private Bag 92-119
Auckland 1020
Telephone: (09) 488 8700
Facsimile: (09) 488 8787

Chief Financial Officer
Feltex Carpets Limited
7th Floor
Feltex Centre
145 Symonds Street
Auckland
Telephone: (09) 379 1919
Facsimile: (09) 379 1911
Email: investor.relations@feltex.com





There is no ombudsman for this type of investment and therefore complaints about the Shares are not able to be made to an ombudsman.

WHAT OTHER INFORMATION CAN I OBTAIN ABOUT THIS INVESTMENT?

All information about the Shares and Feltex is contained or referred to in this Offer Document, which includes Feltex's most recent financial statements.

You may obtain copies of this Offer Document, Feltex's most recent financial statements and other documents of, or relating to, Feltex (including Feltex's constitution and the material contracts referred to in this Offer Document) without charge during normal business hours at Feltex's registered office at 7th Floor, Feltex Centre, 145 Symonds Street, Auckland or on its website at www.feltex.com.

These documents are also filed on a public register which can be accessed on the Companies Office website at www.companies.govt.nz. Where relevant documents are not available on the website a request for the documents can be made by contacting Searchlink at info@searchlink.co.nz. Searchlink may charge a fee for this service.

At any time until Wednesday, 2 June 2004, you can also obtain copies of this Offer Document without charge on request in writing, or by telephone, from the Organising Participants, NZX Firms and the Share Registrar.

Annual information

Shareholders will be sent annually a copy of Feltex's annual report and a copy of Feltex's interim report.

On request information

You may receive copies of:

- this Offer Document;
- Feltex's most recent annual report;
- Feltex's most recently published financial statements (together with all documents that are required to be registered with those financial statements);

- any other information that may be requested under regulation 23A of the Securities Regulations 1983,

at any time until Wednesday, 2 June 2004 free of charge, by contacting Feltex on (09) 379 1919.

EXEMPTIONS FROM THE ACT AND REGULATIONS

The Vendor, Feltex and every person acting on behalf of them are exempted from Regulations 3(1) and 7A(1) of the Regulations insofar as those provisions would require this Offer Document to contain information about the Vendor as an issuer of Shares.

Regulations 3(1) and 7A(1) of the Regulations

This exemption is subject to the conditions that:

- this Offer Document contains a description of the effect of the exemption;
- this Offer Document contains a statement to the effect that the Vendor:
 - is an issuer of the Shares; and
 - has obligations as an issuer under the Securities Act 1978 and the Securities Regulations 1983; and
- Feltex holds all monies received from the public in connection with an application for Shares on trust until those Shares have been allotted.

Sub-clause 1(4) of the First Schedule to the Regulations

The Vendor, Feltex and every person acting on behalf of them are exempted from sub-clause 1(4) of the First Schedule to the Regulations in respect of the Shares.

This exemption is subject to the condition that this Offer Document:

- describes the procedure for fixing the Final Price for the Shares;
- describes the factors that may be taken into account in determining the Final Price for the Shares;
- states when the Final Price for the Shares is expected to be fixed;

- describes how the Shares will be allocated;
- states the Indicative Price Range of the Shares;
- states whether Feltex and the Vendor reserve the right to set a Final Price outside the Indicative Price Range;
- states how an investor may ascertain the Final Price for the Shares after that price is fixed;
- describes the procedures for holding money paid to subscribe for the Shares by, or on behalf of, Feltex or the Vendor;
- describes how over-subscriptions will be treated and the procedures for making refunds; and
- states, in terms permitted by regulation 23 of the Securities Regulations 1983, that an application has been made to NZX for permission to quote the Shares.

This exemption is necessary as the Final Price of the Shares cannot be stated in this Offer Document and will be determined by the Vendor and Feltex and announced on or before Monday, 24 May 2004. This Offer Document instead contains a description of the factors which will be considered by the Vendor and Feltex in setting the Final Price for the Shares offered.

Sub-clause 8(5) of the First Schedule to the Regulations

The Vendor, Feltex and every person acting on behalf of them are exempted from sub-clause 8(5) of the First Schedule to the Regulations in respect of the Shares.

Given that the Final Price of the Shares will not be determined before the date of this Offer Document, it is not possible to determine the total number of new Shares that will be issued under the Offer. It is therefore not possible to show the net tangible asset backing per Share at the date of the latest statement of financial position contained in this Offer Document on the assumption that the Offer has been fully subscribed and the offered Shares allotted before that date.

This Offer Document instead shows the net tangible

asset backing per Share calculated as if the number of Shares on which the assumptions are based is calculated by reference to the maximum number of Shares that would be allotted if the Final Price was at the high point, the mid point and the low point of the Indicative Price Range.

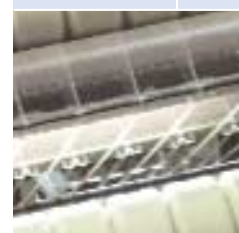
Sub-clause 10(1)(c) of the First Schedule to the Regulations

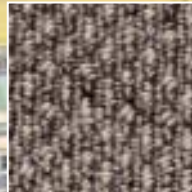
The Vendor, Feltex and every person acting on behalf of them are exempted from sub-clause 10(1)(c) of the First Schedule to the Regulations.

This Offer Document instead contains a forecast statement of cash flows for Feltex for the period of 12 months commencing on 1 July 2003 and ending on the close of 30 June 2004, and a projected statement of cash flow for Feltex for the period of 12 months commencing on 1 July 2004 and ending on the close of 30 June 2005. The statutory financial statements of Feltex for the 12 month periods ending 30 June 2004 and 30 June 2005 will also each include a comparison of the actual cash flows of Feltex for that period with the relevant prospective statement of cash flows for the same period, in the manner required under paragraph 5.4 of Financial Reporting Standard No. 9 (as if those statements were required to comply with that standard).

WAIVERS FROM THE LISTING RULES

Other than the trading halts on the Bonds referred to in this Offer Document, no waivers from the Listing Rules have been sought by the Vendor or Feltex in connection with the Offer.





Statutory information

The following additional information is included in accordance with the requirements of the First Schedule to the Securities Regulations 1983.

1. MAIN TERMS OF THE OFFER

1.1 Issuer

The Issuer of the Shares is Feltex Carpets Limited, which is to issue \$50 million of new Shares pursuant to the Offer (being 25,641,026 to 29,411,765 Shares based on the Indicative Price Range) and whose registered office is at 7th Floor, Feltex Centre, 145 Symonds Street, Auckland, New Zealand.

Credit Suisse First Boston Asian Merchant Partners, L.P., as the Vendor, is offering to sell 113,523,099 existing Shares and one further Share which will be issued to it via a taxable bonus issue prior to the close of the Offer. Accordingly the Vendor is also an issuer of the Shares and has obligations as an issuer under the Securities Act 1978 and the Securities Regulations 1983. The Vendor can be contacted care of the Promoter at Eleven Madison Avenue, 16th Floor, New York, NY 10010, United States of America (Attention: General Counsel).

1.2 Description of securities offered

The securities being offered are fully paid ordinary shares in Feltex. A more full description of the Shares being offered is set out under the headings 'Details of the Offer' on pages 21 to 32 and under the heading 'What sort of investment is this?' on pages 118 to 120 of this Offer Document.

1.3 Maximum number

The maximum number of Shares being offered is 113,523,100 Shares by the Vendor and \$50 million of Shares by Feltex (being 25,641,026 to 29,411,765 Shares based on the Indicative Price Range).

1.4 Price or other consideration

The Indicative Price Range of \$1.70 to \$1.95 per Share has been set by the Vendor and Feltex in consultation with the Joint Lead Managers.

The Vendor and Feltex, in consultation with the Joint Lead Managers, will set the Final Price on or before Monday, 24 May 2004 following the book build process described below.

Between Wednesday, 19 May 2004 and Friday, 21 May 2004 the Joint Lead Managers will undertake a book build process inviting NZX Firms and institutional investors in New Zealand, Australia and potentially elsewhere, to submit bids indicating the number of Shares they wish to apply for at a range of prices. This book build process, in conjunction with demand from other investor classes at the close of the book build process, will be used to assist the Vendor and Feltex in consultation with the Joint Lead Managers to determine the Final Price. The Vendor and Feltex reserve the right to set the Final Price outside of the Indicative Price Range. However, the Retail Price will not be greater than \$1.95 per Share.

Shares allocated under the book build process (other than those allocated to NZX Firms under firm allocation) will be allotted at the Final Price. Shares allotted under the Public Offer (except those allotted to Feltex Employees) or to NZX Firms under the firm allocation will be allotted at the Retail Price, being the lesser of the Final Price and \$1.95 per Share. Shares allotted to Feltex Employees or to Bondholders under the Enhanced Priority Offer and the Priority Offer will be allotted at 95% of the Retail Price. To the extent possible, all Shares allotted by Feltex in the Offer will be allotted at the Final Price.

Other than in respect of the Enhanced Priority Offer, Shares allotted to successful applicants must be paid for in cash.

No cash is payable by Bondholders participating in the Enhanced Priority Offer. Payment for Shares received under that offer will be effected by the Bondholders directing the Bond Trustee to pay to the Vendor the face value of their Bonds, payable to them by Feltex as part of the Call Exercise Price to be paid on redemption of the Bonds.

A full description of the Enhanced Priority Offer (including a description of the Early Redemption Amount) is set out under the heading 'Enhanced Priority Offer' on pages 23 to 25 of this Offer Document.

2. NAME AND ADDRESS OF OFFEROR

2.1 The full name and principal place of business outside of New Zealand of the Vendor are set out in the Directory. The Vendor does not have a principal place of business in New Zealand but can be contacted in New Zealand care of the registered office of Feltex, which is set out in the Directory.

2.2 The net amount of the consideration received by Feltex in respect of the original allotment of the Shares offered for sale by the Vendor as part of the Offer was \$18,452,324.

3. DETAILS OF INCORPORATION OF ISSUER

3.1 Feltex was incorporated on 25 September 1996 under the Companies Act 1993. Its registered number is 828025.

3.2 The public file relating to the incorporation and registration of Feltex can be viewed on the Companies Office website www.companies.govt.nz. Where relevant documents are not available on the website a request for the documents can be made by contacting Searchlink at info@searchlink.co.nz.

4. PRINCIPAL SUBSIDIARIES

Certain of the Feltex Group's Australian subsidiaries hold tangible assets which exceed 5% of the total tangible assets of the Feltex Group. These companies are Feltex Australia Pty Limited, Mellon Investments Pty Limited and IGIPC Pty Limited. The ownership and principal activity of these companies is described in note 12 of the Consolidated Financial Statements at page 107 of this Offer Document.

5. DIRECTORATE AND ADVISERS

- 5.1 The names, technical or professional qualifications (if any), and place of residence of each Director of Feltex is set out under the heading 'Directors' on page 53 to 57 of this Offer Document. The address at which each Director can be contacted is, for the purposes of this Offer Document, the registered office of Feltex, which is set out on the inside back cover of this Offer Document.
- 5.2 Samuel John Magill is the only Director who is also an employee of Feltex. He is Chief Executive Officer of Feltex. No other Directors are employees of Feltex or any of its subsidiaries.
- Mr Peter Thomas is a principal in a consulting firm. Through this firm he provides services to an affiliate of Credit Suisse First Boston Private Equity, Inc. As part of these services, Mr Thomas sits on the Board of Feltex. Under his arrangement, he does not currently receive compensation of any kind from Feltex. However, his expenses and cost of services may be reimbursed by Feltex to Credit Suisse First Boston Private Equity, Inc.
- Following completion of the Offer, Mr Thomas' fees as a Director will be paid by Feltex.
- 5.3 No Director has been adjudged bankrupt during the five years preceding the date of this Offer Document.
- 5.4 The names of Feltex's auditor, the Share Registrar, the Joint Lead Managers, the Organising Participants and solicitors who have been involved in the preparation of this Offer Document are set out on the inside back cover of this Offer Document.
- 5.5 There are no experts named in this Offer Document.
- 5.6 The Offer of Shares is not being underwritten.

5A. RESTRICTIONS ON DIRECTORS' POWERS

5A.1 Constitution

The principal modifications, exceptions or limitations on the powers of the Board imposed by Feltex's constitution are that the Board may not:

- issue or acquire any equity securities except in accordance with the provisions of the constitution and the Listing Rules of NZX;
- give financial assistance for the purpose of, or in connection with, the acquisition of equity securities issued or to be issued, except in limited circumstances and in accordance with the provisions of the constitution and the Listing Rules of NZX;
- cause Feltex to issue, acquire or redeem securities in relation to a person or group of associated persons entitled before the issue, acquisition or redemption to exercise or direct the exercise of not less than 1% of the total votes attaching to Feltex's securities, where there is a significant likelihood that it will result in that person or group of persons materially increasing their ability to exercise or direct the exercise of effective control of Feltex,

without the prior approval of an ordinary resolution of Shareholders;

- cause Feltex to enter into any transaction or series of linked or related transactions to acquire, sell, lease, exchange or otherwise dispose of (otherwise than by way of charge) assets of Feltex which would change the essential nature of the business of Feltex in respect of which the gross value is in excess of 50% of the average market capitalisation of Feltex, without the prior approval of an ordinary resolution of Shareholders; or
- enter into certain material transactions (excluding material transactions which have a value of less than \$250,000 or are employment agreements with natural persons who are not directors) with related parties if that related party is, or is likely to become a direct or indirect party to the material transaction or at least one of a related series of transactions of which the material transaction forms part or, in the case of a guarantee or similar material transaction, a direct or indirect beneficiary of such guarantee or other transaction, without the prior approval of an ordinary resolution of Shareholders.

In addition, individual Directors may not vote on any matter in which he or she is interested unless permitted by the Companies Act 1993 where he or she has complied with the relevant provisions and signed a certificate in respect of the matter.

A description of some of the material features of Feltex's constitution is set out under the heading 'What sort of investment is this?' on pages 118 to 120 of this Offer Document.

5A.2 Companies Act 1993

The Companies Act contains a number of other provisions that could have the effect, in certain circumstances, of imposing modifications, exceptions or limitations on the powers of the Board. These provisions apply to any company registered under the Companies Act 1993.

5A.3 NZX Listing Rules

Application has been made to NZX for permission to list the Shares under the symbol 'FTX'. All requirements of NZX relating thereto that can be complied with on or before the date of this Offer Document have been duly complied with. However, NZX accepts no responsibility for any statement in this Offer Document. Initial quotation of the Shares on the NZSX is expected to occur on Friday, 4 June 2004. NZX has authorised NZX Firms to act on this Offer. Further restrictions will be imposed on Directors by the Listing Rules, such as in relation to related party transactions (as mentioned above). Such restrictions are common for any company listed on the NZSX.

6. SUBSTANTIAL SECURITY HOLDERS

- 6.1 As at 5 May 2004, the only security holder of Feltex is Credit Suisse First Boston Asian Merchant Partners, L.P.,

referred to in this Offer Document as the Vendor, which holds all of its 119,999,999 Shares, both beneficially and legally. The consideration it paid for those Shares, representing a 100% interest in Feltex, was \$19,505,095.

- 6.2** None of the above guarantee, nor undertake any liability in respect of, the Shares being offered.

7. DESCRIPTION OF ACTIVITIES OF ISSUING GROUP

- 7.1** Feltex Carpets Limited is the parent company of the Feltex Group, which is the issuing group for the purposes of the Securities Regulations 1983. During the five years preceding the date of this Offer Document, Feltex's principal activities comprised the manufacture and distribution of soft floor coverings.

Further information about the activities of Feltex and an overview of its business is set out under the heading 'Business Description' on pages 41 to 51 of this Offer Document.

- 7.2** The principal fixed assets of Feltex Group comprise plant and equipment, fittings, land and buildings located in New Zealand and Australia. Feltex Group owns all of its principal fixed assets other than some land, buildings, machinery, vehicles and electrical equipment in New Zealand and Australia which are leased.

8. SUMMARY OF FINANCIAL STATEMENTS

- 8.1** Under the Securities Act (Feltex Carpets Limited) Exemption Notice 2004, Feltex, the Vendor and every person acting on behalf of them is exempted from compliance, subject to certain conditions, with sub-clause 8(5) of the First Schedule to the Securities Regulations 1983.
- 8.2** Financial statements, in summary form, for Feltex in respect of each of the five consecutive accounting periods ended 30 June 2003 and for the six months ended 31 December 2003, are set out under the heading 'Historical Five-Year Summary Financial Information' on page 93 of this Offer Document.
- 8.3** The information contained in the summary of financial statements for the five consecutive accounting periods ended 30 June 2003 is derived from the audited financial statements for Feltex for each accounting period. The information contained in the summary of financial statements for the six months ended 31 December 2003 has been taken from the audited financial statements of Feltex for that accounting period.

9. PROSPECTS AND FORECASTS

- 9.1** A statement as to the trading prospects of Feltex together with any material information that may be relevant to those prospects is set out under the heading 'Prospective Financial Information' on pages 85 to 92 of this Offer Document. Any special trade factors and risks which could materially affect the prospects of Feltex and which are not likely to be known or anticipated by the general public are set out under the heading 'What are my risks?' on pages 125 to 130 of this Offer Document.

- 9.2** It is not the purpose of the Offer to provide finance for any particular capital project.

10. PROVISIONS RELATING TO INITIAL FLOTATIONS

- 10.1** The plans of the Directors in respect of Feltex during the year commencing on the date of this Offer Document are to undertake the Offer, redeem the Bonds and to continue the business and trading activity of Feltex as described under the heading 'Business Description' on pages 41 to 51 of this Offer Document. The source of finance required for these plans will be operating cash flows, working capital and borrowings and other financial accommodation considered appropriate by Feltex during that year. Feltex will use the funds received from the issue of Shares pursuant to the Offer to assist in funding the redemption of the Bonds.

- 10.2** Notwithstanding the plans of the Directors, the proceeds of the Offer may be applied towards any other undertaking in which Feltex may lawfully engage.

- 10.3** A prospective statement of financial performance, movement in equity and cash flows of Feltex which the Directors:

- (a) forecast to occur in respect of the period of 12 months commencing on 1 July 2003 and ending on the close of 30 June 2004 is set out on pages 85 to 86 of this Offer Document; and
- (b) project to occur in respect of the period of 12 months commencing on 1 July 2004 and ending on the close of 30 June 2005 is set out on pages 85 to 86 of this Offer Document.

A prospective statement of financial position which the Directors forecast to occur as at 30 June 2004 is set out on page 87 of this Offer Document.

- 10.4** The minimum amount that, in the opinion of the Directors, must be raised in order to provide sums required to be provided in respect of:

- (a) the purchase price of any property to be purchased which is to be defrayed in whole or in part out of the proceeds of the Offer;
- (b) any preliminary expenses or commission;
- (c) working capital; or
- (d) the repayment of any money borrowed by Feltex in respect of any of the foregoing matters,

is \$50 million which will be used to assist in funding the redemption of the Bonds as part of the exercise by Feltex of the Bond Call Option.

11. ACQUISITION OF BUSINESS OR SUBSIDIARY

Feltex Group has not acquired any businesses, subsidiaries or body corporates from any person at any time in the period of two years immediately preceding the date of this Offer Document, where the consideration paid or payable for that business subsidiary or body corporate was more than one-fifth of the amount of the total tangible assets of Feltex as at 31 December 2003. Feltex does not have any current

intention to acquire any such businesses, subsidiaries or body corporates.

12. SECURITIES PAID UP OTHERWISE THAN IN CASH

Feltex has not allotted any securities paid up otherwise than in cash within the five years preceding the date of this Offer Document.

13. OPTIONS TO SUBSCRIBE FOR SECURITIES OF ISSUING GROUP

Feltex has granted options to senior executives as set out under the heading 'Executive Share Option Plans' on pages 69 to 70 of this Offer Document. Each option granted gives the holder the right to subscribe for one ordinary Share. A total of 3.625 million Plan A Options have been granted under Option Plan A. A maximum of 4.35 million Plan B Options may be granted under Option Plan B. If the options were granted and were then all exercised, the total number of Shares that would be issued by Feltex is 7.975 million. No consideration is payable for the options. However, holders of options must pay the applicable exercise price per Share upon the exercise of the option. Details of the initial exercise prices payable in respect of Plan A Options and Plan B Options, the criteria upon which the initial exercise prices may be adjusted and the expiry dates for the options are set out under the heading 'Executive Share Option Plans' on pages 69 to 70 of this Offer Document.

14. APPOINTMENT AND RETIREMENT OF DIRECTORS

14.1 None of the existing Directors of Feltex has been appointed to the Board in a manner that is materially different from that specified in sections 153 and 155 of the Companies Act 1993.

14.2 There is no retirement age for Feltex's Directors.

14.3 No person (other than the shareholders of Feltex in general meeting or the Directors acting as a Board to fill a casual vacancy) has the right to appoint a Director or Directors.

14.4 Each Director has the power to appoint a person to act as an alternate Director in his or her place, provided such appointment has the consent of a majority of his or her co-Directors.

15. DIRECTORS' INTERESTS

15.1 Sam Magill is a Director and the Chief Executive Officer of Feltex providing executive and management services to Feltex.

15.2 During the year ended 30 June 2004, Feltex paid legal fees to Clendon Feeney, a firm in which Craig Horrocks was a partner.

15.3 Other than as noted above, none of Feltex nor its subsidiaries has entered into any material transactions, in the five years preceding the specified date, with a Director or any of the persons specified in paragraph 15 of the First Schedule to the Regulations.

15.4 Although the constitution does provide for payments to be made to Directors in connection with retirement or cessation of office of that Director, Feltex has determined not to make any such payments.

16. PROMOTER'S INTERESTS

The Promoter is Credit Suisse First Boston Private Equity, Inc.

On 23 December 2001, the Vendor (being a body corporate related to the Promoter) converted an existing convertible note issued by Feltex on 18 December 1996 together with accrued interest on the convertible note into 17,800,095 Shares for a consideration of \$17,800,095. The cost to Feltex in giving effect to the conversion was \$17,800,095.

There have been no other material transactions entered into in the last five years between Feltex (or any of its subsidiaries) and the Promoter, any related company of the Promoter, any immediate relative of the Promoter or any company 50% owned by the Promoter.

17. MATERIAL CONTRACTS

Feltex has entered into the following material contracts during the two years preceding the date of this Offer Document (not being contracts entered into in the ordinary course of business):

- (a) A Deed of Amendment and Restatement of Facility dated 27 April 2004 between Feltex, Feltex Carpets Limited (Australian Branch) and Feltex Australia Pty Limited and each of the other members of Feltex Group, Australia and New Zealand Banking Group Limited and the ANZ Banking Group (New Zealand) Limited ('Amendment and Restatement Deed') pursuant to which the Feltex Group's senior banking facilities were amended and restated;
- (b) A Liability Sharing Deed dated 4 May 2004 between Feltex and the Vendor under which they agree the basis on which the liability for any claim under the indemnity given to the Joint Lead Managers as part of the Offer will be shared between them. Under the Liability Sharing Deed, any claim is to be borne by either of Feltex or the Vendor, if that party is solely responsible for the indemnified loss or, if both are at fault or neither is definitively responsible for the indemnified loss, then such liability is to be shared by Feltex and the Vendor on the basis of each party's actual pro-rata entitlement to the total net proceeds of the Offer.
- (c) A letter dated 22 April 2004 from the Promoter to the Vendor confirming the role of Credit Suisse First Boston Private Equity, Inc. as Promoter in the context of the Offer, which role is acknowledged by the Vendor.
- (d) An Amendment Deed dated 9 April 2003 to reconstitute the terms of existing senior bank facilities between Feltex, Feltex Australia Pty Limited and each of the other members of Feltex (other than Shaw Tiles Australia Pty Limited) and Australia

and New Zealand Banking Group Limited and ANZ Banking Group (New Zealand) Limited. This agreement has now been replaced by the Deed of Amendment and Restatement of Facility.

- (e) A number of material contracts in relation to the April 2003 offer of Bonds;
- (i) an underwriting agreement dated 9 April 2003 with Forsyth Barr Group Limited under which Forsyth Barr Group Limited agreed to underwrite the issue of \$50 million of Bonds under the Bond offer;
- (ii) a Trust Deed dated 11 April 2003 between Feltex, each other member of Feltex and TOWER Trust Limited (now Trustees Executors Limited) constituting the Bonds offered;
- (iii) Bond Registrar and paying agency agreement dated 11 April 2003 with Computershare Investor Services Limited relating to the Bonds;
- (iv) two Deeds of Priority (for New Zealand and Australia respectively) dated 11 April 2003 between Feltex, certain other members of Feltex and the Trustee, ANZ Capel Court Limited, Australia and New Zealand Banking Group Limited and ANZ Banking Group (New Zealand) Limited.

18. PENDING PROCEEDINGS

18.1 Feltex is the defendant in proceedings in Australia brought by Ceramic Funds Management Limited (CFM) over the supply of carpet. CFM is seeking damages totalling A\$437,216. Feltex has vigorously defended the claim and has counterclaimed against CFM alleging breach of contract and seeking damages of A\$530,518. Attempts in 2003 to resolve this dispute by way of mediation were unsuccessful. If the parties are unable to agree to a settlement, the matter will proceed to court in 2004.

18.2 There are no other legal proceedings or arbitrations that are pending as at the date of this Offer Document that may have a material adverse effect on Feltex.

19. PRELIMINARY AND ISSUE EXPENSES

19.1 Issue expenses, brokerage, issue management fees, legal and accounting fees, printing, advertising, distribution and other costs borne in making the Offer are estimated to be \$21.7 million. This amount assumes a Final Price at the mid-point of the Indicative Price Range and includes an incentive fee payable to the Joint Lead Managers of an amount to be determined by the Vendor (after consultation with Feltex and the Joint Lead Managers). The brokerage costs and firm allocation fees associated with the Offer are:

- (a) to the Joint Lead Managers a brokerage fee of 1.25% of the proceeds in respect of Shares allotted to institutional investors pursuant to the book build process;
- (b) to the Joint Lead Managers a brokerage fee of 0.75% of the proceeds in respect of Shares allotted

under the Enhanced Priority Offer and the Priority Offer;

- (c) to NZX Firms, including the Organising Participants and the Co-Managers, a brokerage fee of 1.25% of the proceeds in respect of other Shares allotted pursuant to valid applications submitted by retail investors bearing their stamp;
- (d) to NZX Firms, including the Organising Participants and the Co-Managers, a firm commitment fee of 0.5% of the proceeds in respect of Shares allotted to valid applications submitted under firm allocation bearing their stamp; and
- (e) to institutional investors a firm commitment fee of 0.5% of the proceeds in respect of Shares allotted to institutional investors pursuant to the book build process.

Feltex will pay up to \$1.75 million of the total Offer costs plus the Early Redemption Amount. The remainder will be borne by the Vendor.

20. RESTRICTIONS ON ISSUING GROUP

20.1 The Amendment and Restatement Deed referred to under the heading 'Material Contracts' in this section of this Offer Document imposes certain restrictions on the ability of Feltex Group to pay a dividend. Under that Deed, Feltex may not pay a dividend if the ratio of total debt to EBITDA exceeds 3.20 times at any time on or before 30 June 2007. Feltex is also constrained under the Deed from paying a dividend if it is in default of its banking facilities.

20.2 The Amendment and Restatement Deed also imposes certain restrictions on the ability of the Feltex Group to borrow, including provisions whereby each member of the Feltex Group:

- (a) will not allow security to be taken over its assets, except in certain agreed circumstances;
- (b) will not engage in any sale or leaseback of its assets where the asset concerned is then leased to a company within the Feltex Group; and
- (c) is restricted to incurring only 'permitted finance debt' (defined in the Amendment and Restatement Deed) which, in summary, includes debt owing under the Amendment and Restatement Deed and certain operating leases and finance leases and unsecured indebtedness having an aggregate principal amount of A\$1,000,000 in connection with a single transaction up to a maximum A\$5,000,000 in any calendar year.

20.3 Other than the restrictions contained in the Deed of Amendment and Restatement, there are no restrictions on the ability of the Feltex Group to make a distribution or to borrow, being restrictions which result from any undertaking given or any contract or debt entered into by any of the Feltex Group.

21. OTHER TERMS OF OFFER AND SECURITIES

There are no other terms of the Offer, or the Bonds, which are not set out elsewhere in this Offer Document other than those:

- (a) implied by law; or
- (b) which are set out in a document that has been registered with a public official, is available for public inspection and is referred to in this Offer Document.

22.-38. FINANCIAL STATEMENTS

The financial statements of Feltex required by clause 22 prepared in accordance with clauses 23 to 38 of the First Schedule of the Securities Regulations 1983 are set out under the heading 'Consolidated Financial Statements' on pages 96 to 99 of this Offer Document.

39. PLACES OF INSPECTION OF DOCUMENTS

Feltex's constitution, and the material contracts referred to under the heading 'Material Contracts' in this section, may be viewed free of charge on the Companies Office website at www.companies.govt.nz or at the registered office of Feltex. Where relevant documents are not available on the Companies Office website, a request for the documents can be made by contacting Searchlink at info@searchlink.co.nz who may charge a fee for that request.

40. OTHER MATERIAL MATTERS

There are no other material matters relating to the Offer, other than matters disclosed elsewhere in this Offer Document and in contracts entered into in the ordinary course of business of the Feltex Group.

41. DIRECTORS' STATEMENT

The Directors, after due inquiry by them in relation to the period between 31 December 2003 and the date of this Offer Document, are of the opinion that no circumstances have arisen that materially adversely affect:

- (a) the trading or profitability of the Feltex Group;
- (b) the value of the Feltex Group's assets; or
- (c) the ability of the Feltex Group to pay its liabilities due within the next 12 months.

42. AUDITOR'S REPORT

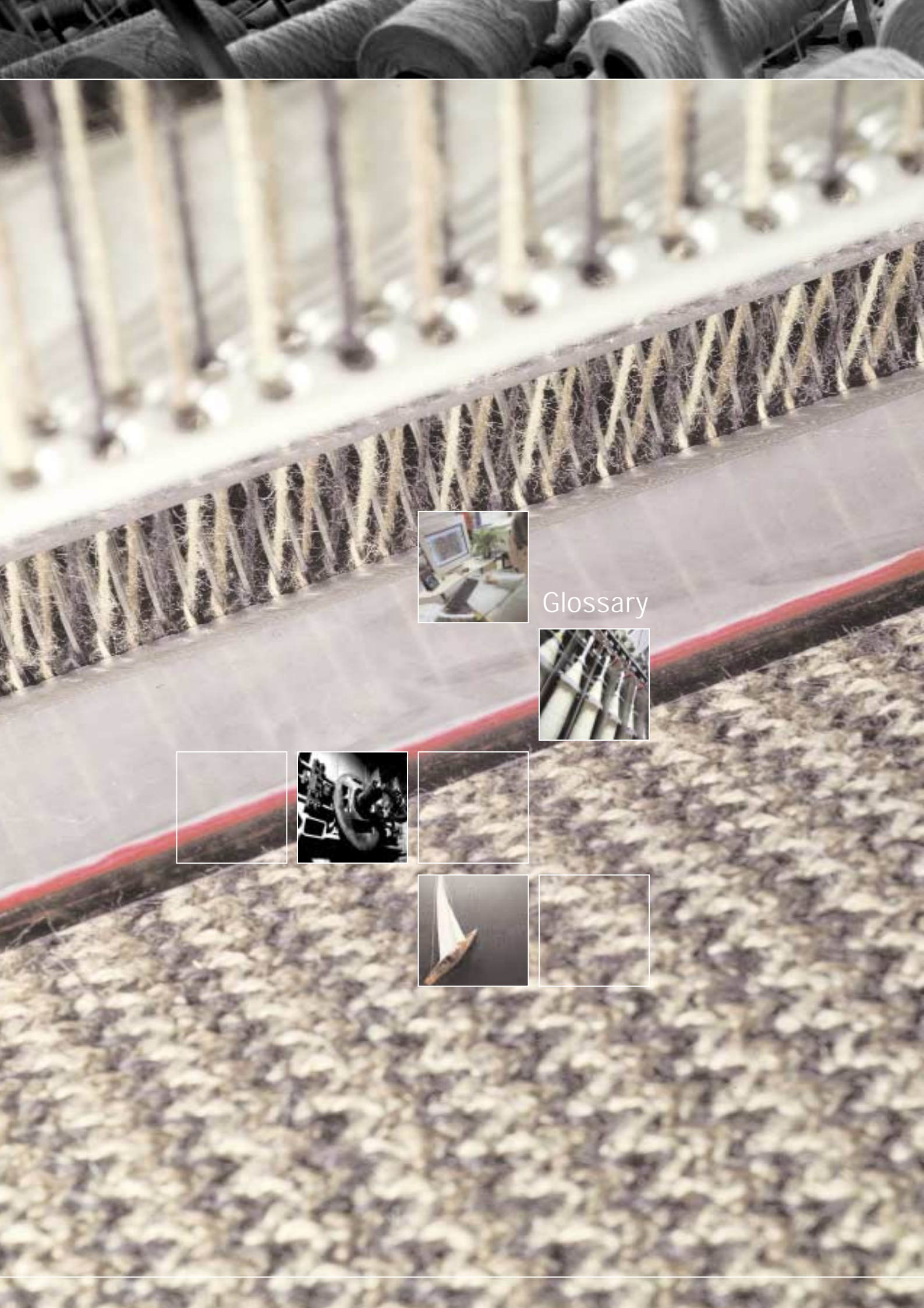
The auditor's report required by clause 42 of the First Schedule of the Securities Regulations 1983 is set out under the heading 'Auditors' Report' on pages 77 to 79 of this Offer Document.

This Offer Document has been signed:

- (a) by each Director of Feltex Carpets Limited (as Issuer) (or by his or her agent authorised in writing) being TEC Saunders, SJ Magill, JM Feeney, CE Horrocks, PD Hunter, P Thomas, and J Withers.
- (b) for and on behalf of CSFB IGP, the ultimate general partner (and Director for purposes of the Securities Act 1978) of Credit Suisse First Boston Asian Merchant Partners, L.P. by its agent authorised in writing.
- (c) by Credit Suisse First Boston Private Equity, Inc. (as Promoter) by its agent authorised in writing.
- (d) by each director of Credit Suisse First Boston Private Equity, Inc. (as Promoter) or by his or her agent authorised in writing, being Brian Finn, George Hornig, and Nicole Arnaboldi.



Feltex
CARPETS
CARPETS LTD



Glossary



\$ or NZ\$	means New Zealand dollars;
Accrued Interest	means Accrued Interest and Unpaid Interest as defined in the Bond Trust Deed;
Act	means the Securities Act 1978;
allot	has the meaning set out in the Securities Act 1978 and includes the transfer of existing Shares from the Vendor;
Application Form	means the application form contained in this Offer Document;
Board	means the Board of Directors of Feltex;
Bond Call Option	means the option granted to Feltex under the Bond Trust Deed to call for early redemption of the Bonds;
Bond Registrar	means Computershare Investor Services Limited;
Bond Trust Deed	means the trust deed entered into between certain members of the Feltex Group and the Bond Trustee in relation to the Bonds;
Bond Trustee	means Trustees Executors Limited;
Bondholder	means a registered holder of Bonds;
Bondholder Application Form	means the application form accompanying this Offer Document for Bondholders to participate in the Enhanced Priority Offer or the Priority Offer;
Bonds	mean the bonds issued under the Feltex Carpets Limited combined investment statement and prospectus dated 11 April 2003;
BPA	means base price adjustment;
Call Exercise Price	has the meaning given to that term in the Bond Trust Deed;
Co-Managers	means ABN AMRO Craigs Limited and Macquarie Equities New Zealand Limited;
Directory	means the directory set out in the section of this Offer Document entitled 'Directory';
Early Redemption Amount	means the amount calculated in accordance with the formula set out under the heading 'Calculation of the Early Redemption Amount' on page 24 of this Offer Document;
EBIT	means earnings before interest and tax;
EBITA	means earnings before interest, tax, amortisation and write-offs;
EBITDA	means earnings before interest, tax, depreciation, amortisation and write-offs;
Eligible Feltex Retailers, Suppliers and Contractors	means retailers of Feltex carpets in New Zealand, suppliers in New Zealand of raw materials used in the manufacture of Feltex carpets, and Feltex contractors in New Zealand who are eligible to participate in the Offer;
Enhanced Priority Offer	means the offer to Bondholders to exchange their Bonds for Shares as described under the heading 'Enhanced Priority Offer' on pages 23 to 25 of this Offer Document;
Executive Share Option Plans	means Option Plan A and Option Plan B set out under the heading 'Executive Share Option Plans' on pages 69 to 70 of this Offer Document;
Feltex	means Feltex Carpets Limited and, where the context requires, its subsidiaries;
Feltex Employees	means the employees in New Zealand of Feltex;
Feltex Group	means Feltex and all of its subsidiaries;
Final Price	means the price per Share determined by the Vendor and Feltex in consultation with the Joint Lead Managers, as described under the heading 'Details of the Offer' on pages 21 to 32 of this Offer Document;
Indicative Price Range	means \$1.70 to \$1.95 per Share, as set by the Vendor and Feltex in consultation with the Joint Lead Managers;
Joint Lead Managers	means First NZ Capital and Forsyth Barr Limited;
Listing Rules	means Listing Rules of NZX;
Market Value	has the meaning given to that term in the Bond Trust Deed;



NZSX	means the equity securities market operated by NZX;
NZX	means New Zealand Exchange Limited;
NZX Firms	means those firms designated as such by NZX;
Offer	means the offer of Shares under this Offer Document;
Offer Document	means this combined investment statement and prospectus dated Wednesday, 5 May 2004;
Opening Date	means Wednesday, 5 May 2004 or such other date as Feltex determines;
Option Plan A	means the executive share option plan A set out under the heading 'Executive Share Option Plans' on pages 69 to 70 of this Offer Document;
Option Plan B	means the executive share option plan B set out under the heading 'Executive Share Option Plans' on pages 69 to 70 of this Offer Document;
Organising Participants	means First NZ Capital Securities and Forsyth Barr Limited;
Plan A Executives	means the Feltex executives eligible for Plan A Options under the Option Plan A;
Plan A Options	means the options to be granted to Plan A Executives under the Executive Share Option Plan;
Plan B Executives	means the Feltex executives eligible for Plan B Options under the Option Plan B;
Plan B Options	means the options to be granted to Plan B Executives under the Executive Share Option Plan;
Priority Offer	means the offer to Bondholders who do not wish to participate in the Enhanced Priority Offer, entitling those Bondholders to subscribe for \$500 of Shares for every \$1,000 face value of Bonds held for 95% of the Retail Price;
Promoter	means Credit Suisse First Boston Private Equity, Inc.;
Public Offer	means the Offer to the Bondholders in New Zealand, Feltex Employees, Eligible Feltex Retailers, Suppliers and Contractors and members of the public in New Zealand, as set out under the heading 'Public Offer';
Regulations	means the Securities Regulations 1983;
Retail Price	means the lesser of the Final Price and \$1.95;
Senior Management or Senior Managers	means the members of Feltex's senior management team as set out under the heading 'Feltex Management' on pages 63 to 66 of this Offer Document;
Share Registrar	means Computershare Investor Services Limited;
Shares	means ordinary shares in Feltex;
Shareholder	means a registered holder of Shares;
Takeovers Code	means the Takeovers Code Approval Order 2000 (SR 2000/210); and
Vendor	means Credit Suisse First Boston Asian Merchant Partners, L.P., a limited partnership registered in Delaware.



Instructions and Application Forms



INSTRUCTIONS

Applications to subscribe for Shares must be made on the Application Form contained at the back of this Offer Document (or, in the case of applications by Bondholders, Feltex Employees and Eligible Feltex Retailers, Suppliers and Contractors, on the additional form accompanying this Offer Document).

Applicants who are applying under the Enhanced Priority Offer or the Priority Offer should complete their blue application form entitled 'Bondholder Application Form'. Applications under the Enhanced Priority Offer and the Priority Offer must be delivered to the Share Registrar, Computershare Investor Services Limited, no later than 5.00pm on Friday, 21 May 2004, or to any NZX Firm or to one of the Organising Participants in sufficient time for the documents to be forwarded to and received by the Share Registrar no later than 5.00pm on Friday, 21 May 2004. Bondholders may also apply for Shares in addition to their Enhanced Priority Offer or Priority Offer application by completing the Application Form at the back of this Offer Document, attaching it to the Bondholder Application Form and including payment in full for the additional Shares. Bondholders should refer to their blue Bondholder Application Form and attached instructions for further information.

Applicants who are Feltex Employees or Eligible Feltex Retailers, Suppliers and Contractors in New Zealand should complete their yellow or grey application form as applicable. These applications, together with the appropriate payment, must be delivered to the Share Registrar, no later than 5.00pm on Friday, 21 May 2004, or to any NZX Firm or to one of the Organising Participants in sufficient time for the documents to be forwarded to and received by the

Share Registrar no later than 5.00pm on Friday, 21 May 2004. These applications must be for a minimum of \$1,000.

Applications from other Public Offer applicants must be delivered to the Share Registrar by 5.00pm on Friday, 21 May 2004, or to any NZX Firm or to one of the Organising Participants in sufficient time for the documents to be forwarded to and received by the Share Registrar no later than 5.00pm on Friday, 21 May 2004. These applications must be for a minimum of \$2,500. The application must be accompanied by payment in full for the application at the Retail Price.

Applications from retail investors pursuant to firm allocations must be lodged with the NZX Firm through which a firm allocation was obtained, in sufficient time to reach the Share Registrar no later than noon on Wednesday, 2 June 2004. These applications must be for a minimum of \$2,500. The application must be accompanied by payment in full for the application at the Retail Price.

All applications except those pursuant to the Enhanced Priority Offer must be accompanied by payment in full. Cheques should be made payable to 'Feltex Share Offer' and crossed 'Non-Transferable'.

The Vendor and Feltex may, in their discretion, treat any Application Form as valid notwithstanding that it does not comply with these acceptance requirements, and may, in their discretion, rectify any errors in, or omissions from, any application form. The Vendor and Feltex will determine, in their sole discretion, all questions relating to documents, including the validity, eligibility, time of receipt and effectiveness of an application form. The determination of the Vendor and Feltex will be final and binding on all parties.

Application Form



This Application Form constitutes an offer to purchase the Shares described herein. The full amount of the purchase price for the Shares is due upon application. The closing date for the offer is noon on Wednesday, 2 June 2004 for firm allocation applications and 5.00pm on Friday, 21 May 2004 for all other applications.

FOR INSTRUCTIONS ON HOW TO COMPLETE AND DELIVER THIS FORM SEE THE ACCOMPANYING APPLICATION INSTRUCTIONS.

BROKER'S STAMP

ADVISER'S CODE

INVESTOR DETAILS (Block letters please)

Title	First Name(s)	Surname
<input type="text"/>	<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>

Corporate Name

If applying for Shares as a corporate entity do not include your personal name above.

Postal Address Suburb

City Postcode

Phone Home () Business ()

INVESTMENT DETAILS

Applications must be for a minimum of \$2,500 worth of Shares. Amount applied for **NZ\$**

Cheques must be payable to 'Feltex Share Offer' and crossed 'Non-Transferable'. Payment must be made in New Zealand dollars with a cheque drawn on a registered New Zealand bank or such method of payment agreed as acceptable to the Joint Lead Managers.

Common Shareholder Number

IRD Number Only the IRD Number of the first applicant is required for joint applicants.

AGREEMENT OF TERMS

1. I/We offer to purchase the value of Shares shown above and agree to purchase such Shares (or such lesser value of Shares as the Vendor, Feltex and the Joint Lead Managers may allocate to me/us) on the terms and conditions set out in the Offer Document. 2. I/We agree to be bound by the constitution of Feltex Carpets Limited (as amended from time to time). 3. All details and statements made by me/us are complete and accurate and this completed Application Form complies with the terms of the Offer Document. 4. I/We represent that I am/we are not, as a result of the law of any place, a person to whom the Offer Document should not be given. 5. I/We appoint Computershare Investor Services Limited as my/our authorised agent to execute any transfers or other documents as may be necessary or appropriate to register allocated Shares in my/our name on the applicable register or sub-register.

Signature Date / /

Signature Date / /

Attorneys: Please complete and sign the certificate of non-revocation below. Upon acceptance, in whole or in part, of an applicant's offer to purchase Shares, the Vendor and Feltex will transfer those Shares to the applicant and will procure registration of the applicant as the holder of those Shares, subject to all applicable laws. This Application Form must not be issued, circulated or distributed unless accompanied by the Offer Document.

CERTIFICATE OF NON-REVOCATION OF POWER OF ATTORNEY

I, (Name of Attorney)

of (Address and occupation of Attorney)

HEREBY CERTIFY THAT

1. By a Power of Attorney dated the day of MONTH / YEAR

(Name and occupation of person for whom Attorney is signing)

(Address of person for whom Attorney is signing)

('the Donor') appointed me his/her/its Attorney on the terms and conditions set out in the Power of Attorney.

2. I have executed the application for Shares printed on the face of this form as Attorney pursuant to the powers conferred on me by that Power of Attorney.

3. At the date of this certificate I have not received any notice or information of the revocation of that Power of Attorney, whether by the death or dissolution of the Donor or otherwise.

Signed at this day of 2004

Signature of Attorney

ADDITIONAL APPLICATION TERMS

This completed Application Form constitutes an irrevocable offer by the applicant to acquire the value of Shares specified in the Application Form, or such lesser value of Shares as the Vendor, Feltex and the Joint Lead Managers may determine, on the terms and conditions set out in this combined Offer Document, and this Application Form.

If the aggregate value of Shares applied for exceeds the value offered then applicants may be allocated a lower value of Shares than the value for which they applied. The value of Shares allocated to an applicant will be determined by the Vendor and Feltex in conjunction with the Joint Lead Managers. No reasons will be given regarding the level of allocations. Allotments will be rounded to the nearest whole Share. No returns will be given for any difference arising solely due to rounding. Applications that are the subject of firm allocation will not be scaled.

The Vendor and Feltex reserve the right to decline any application in whole or in part, without giving any reason. Money received in respect of applications which are declined in whole or in part will be refunded in whole or in part (as the case may be). Refunds will be posted within five business days after allocation of Shares to successful applicants or after an application has been declined (as applicable). Interest will not be paid on any application money refunded to applicants.

Shareholding statements will be dispatched as soon as is practicable after allocation, but in any event not later than five business days after closing of the Offer. Applicants should not attempt to sell their shareholdings until they have received their shareholding statements.

The Retail Price for the Shares will be determined in the manner described in the Offer Document.

If this Application Form is not completed correctly, or if the accompanying payment is for the wrong amount, it may still be treated as valid. The Vendor's and Feltex's decision as to whether to treat an application as valid, and how to construe, amend or complete it, shall be final. The Vendor's and Feltex's decision on the value of Shares to be allocated to an applicant shall also be final. Applicants will not, however, be treated as having offered to purchase a greater value of Shares than that indicated on the Application Form.

Application money will be banked upon receipt into a Feltex trust account for persons participating in the Offer. Interest earned on that account will be paid to the Vendor and Feltex. If an applicant fails to make payment for the Shares under the Offer or an applicant's cheque fails to clear, then the entitlement of that applicant to apply for Shares may be cancelled, or any transfer of Shares to the applicant may be reversed.

Expressions defined in the Offer Document have the same meanings in this Application Form. This Application Form is governed by New Zealand law.

CORRECT FORM OF REGISTRABLE NAMES

Note that ONLY LEGAL ENTITIES are allowed to hold Shares. Applications must be in the name(s) of natural person(s), companies or other legal entities acceptable to the Issuers. At least one full given name and the surname is required for each natural person. The name of the beneficiary or any other non-registrable name may be included by way of an account designation if completed exactly as described in the examples of correct forms of registrable names below.

TYPE OF INVESTOR		CORRECT FORM
INDIVIDUAL	<i>Use given name in full, not initials</i>	John Joseph Smith
COMPANY	<i>Use company title, not abbreviations</i>	ABC Limited
TRUSTS	<i>Do not use the names of deceased or trust name, use trustee(s) names; all trustees may apply as joint applicants</i>	Sue Smith and John Smith/Sue Smith Family A/C
DECEASED ESTATES	<i>Do not use the names of deceased, use executor(s) personal names</i>	Michael Smith Est/John Smith A/C
PARTNERSHIPS	<i>Do not use the names of partnership, use partner(s) personal names</i>	John Smith & Michael Smith/John Smith & Son A/C
CLUBS/UNINCORPORATED BODIES	<i>Do not use names of clubs etc, use office bearer(s) personal names</i>	Sue Smith/ABC Tennis Association A/C
SUPERANNUATION FUNDS	<i>Do not use name of fund, use name of trustee</i>	John Smith Limited/Super Fund A/C

This Application Form constitutes an offer to purchase the Shares described herein. The full amount of the purchase price for the Shares is due upon application. The closing date for the offer is noon on Wednesday, 2 June 2004 for firm allocation applications and 5.00pm on Friday, 21 May 2004 for all other applications.

FOR INSTRUCTIONS ON HOW TO COMPLETE AND DELIVER THIS FORM SEE THE ACCOMPANYING APPLICATION INSTRUCTIONS.

BROKER'S STAMP**ADVISER'S CODE****INVESTOR DETAILS** (Block letters please)

Title	First Name(s)	Surname
<input type="text"/>	<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>

Corporate Name

If applying for Shares as a corporate entity do not include your personal name above.

Postal Address **Suburb** **City** **Postcode** **Phone Home** () **Business** ()**INVESTMENT DETAILS**

Applications must be for a minimum of \$2,500 worth of Shares. **Amount applied for** **NZ\$**

Cheques must be payable to 'Feltex Share Offer' and crossed 'Non-Transferable'. Payment must be made in New Zealand dollars with a cheque drawn on a registered New Zealand bank or such method of payment agreed as acceptable to the Joint Lead Managers.

Common Shareholder Number **IRD Number** Only the IRD Number of the first applicant is required for joint applicants.**AGREEMENT OF TERMS**

1. I/We offer to purchase the value of Shares shown above and agree to purchase such Shares (or such lesser value of Shares as the Vendor, Feltex and the Joint Lead Managers may allocate to me/us) on the terms and conditions set out in the Offer Document. 2. I/We agree to be bound by the constitution of Feltex Carpets Limited (as amended from time to time). 3. All details and statements made by me/us are complete and accurate and this completed Application Form complies with the terms of the Offer Document. 4. I/We represent that I am/we are not, as a result of the law of any place, a person to whom the Offer Document should not be given. 5. I/We appoint Computershare Investor Services Limited as my/our authorised agent to execute any transfers or other documents as may be necessary or appropriate to register allocated Shares in my/our name on the applicable register or sub-register.

Signature **Date** / / **Signature** **Date** / /

Attorneys: Please complete and sign the certificate of non-revocation below. Upon acceptance, in whole or in part, of an applicant's offer to purchase Shares, the Vendor and Feltex will transfer those Shares to the applicant and will procure registration of the applicant as the holder of those Shares, subject to all applicable laws. This Application Form must not be issued, circulated or distributed unless accompanied by the Offer Document.

CERTIFICATE OF NON-REVOCATION OF POWER OF ATTORNEY**I,** (Name of Attorney)**of** (Address and occupation of Attorney)**HEREBY CERTIFY THAT**

1. By a Power of Attorney dated the day of MONTH / YEAR

 (Name and occupation of person for whom Attorney is signing) (Address of person for whom Attorney is signing)

('the Donor') appointed me his/her/its Attorney on the terms and conditions set out in the Power of Attorney.

2. I have executed the application for Shares printed on the face of this form as Attorney pursuant to the powers conferred on me by that Power of Attorney.

3. At the date of this certificate I have not received any notice or information of the revocation of that Power of Attorney, whether by the death or dissolution of the Donor or otherwise.

Signed at this day of 2004

Signature of Attorney

ADDITIONAL APPLICATION TERMS

This completed Application Form constitutes an irrevocable offer by the applicant to acquire the value of Shares specified in the Application Form, or such lesser value of Shares as the Vendor, Feltex and the Joint Lead Managers may determine, on the terms and conditions set out in this combined Offer Document, and this Application Form.

If the aggregate value of Shares applied for exceeds the value offered then applicants may be allocated a lower value of Shares than the value for which they applied. The value of Shares allocated to an applicant will be determined by the Vendor and Feltex in conjunction with the Joint Lead Managers. No reasons will be given regarding the level of allocations. Allotments will be rounded to the nearest whole Share. No returns will be given for any difference arising solely due to rounding. Applications that are the subject of firm allocation will not be scaled.

The Vendor and Feltex reserve the right to decline any application in whole or in part, without giving any reason. Money received in respect of applications which are declined in whole or in part will be refunded in whole or in part (as the case may be). Refunds will be posted within five business days after allocation of Shares to successful applicants or after an application has been declined (as applicable). Interest will not be paid on any application money refunded to applicants.

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Application money will be banked upon receipt into a Feltex trust account for persons participating in the Offer. Interest earned on that account will be paid to the Vendor and Feltex. If an applicant fails to make payment for the Shares under the Offer or an applicant's cheque fails to clear, then the entitlement of that applicant to apply for Shares may be cancelled, or any transfer of Shares to the applicant may be reversed.

Expressions defined in the Offer Document have the same meanings in this Application Form. This Application Form is governed by New Zealand law.

CORRECT FORM OF REGISTRABLE NAMES

Note that ONLY LEGAL ENTITIES are allowed to hold Shares. Applications must be in the name(s) of natural person(s), companies or other legal entities acceptable to the Issuers. At least one full given name and the surname is required for each natural person. The name of the beneficiary or any other non-registrable name may be included by way of an account designation if completed exactly as described in the examples of correct forms of registrable names below.

TYPE OF INVESTOR		CORRECT FORM
INDIVIDUAL	<i>Use given name in full, not initials</i>	John Joseph Smith
COMPANY	<i>Use company title, not abbreviations</i>	ABC Limited
TRUSTS	<i>Do not use the names of deceased or trust name, use trustee(s) names; all trustees may apply as joint applicants</i>	Sue Smith and John Smith/Sue Smith Family A/C
DECEASED ESTATES	<i>Do not use the names of deceased, use executor(s) personal names</i>	Michael Smith Est/John Smith A/C
PARTNERSHIPS	<i>Do not use the names of partnership, use partner(s) personal names</i>	John Smith & Michael Smith/John Smith & Son A/C
CLUBS/UNINCORPORATED BODIES	<i>Do not use names of clubs etc, use office bearer(s) personal names</i>	Sue Smith/ABC Tennis Association A/C
SUPERANNUATION FUNDS	<i>Do not use name of fund, use name of trustee</i>	John Smith Limited/Super Fund A/C

DIRECTORS OF FELTEX

Timothy Ernest Corbett Saunders
 Samuel John Magill
 John Michael Feeney
 Craig Edgeworth Horrocks
 Peter David Hunter
 Peter Thomas
 Joan Withers

ISSUER

Feltex Carpets Limited

REGISTERED OFFICE OF FELTEX

7th Floor, Feltex Centre
 145 Symonds Street, Auckland
 Telephone: (09) 379 1919
 Facsimile: (09) 379 1911
www.feltex.com

VENDOR

Credit Suisse First Boston Asian
 Merchant Partners, L.P.

REGISTERED OFFICE OF VENDOR

c/- Credit Suisse First Boston Private Equity, Inc.
 Eleven Madison Avenue, 16th Floor
 New York, NY 10010
 United States of America
 Attention: General Counsel

PROMOTER

Credit Suisse First Boston Private Equity, Inc.

REGISTERED OFFICE OF PROMOTER

Eleven Madison Avenue, 16th Floor
 New York, NY 10010
 United States of America
 Attention: General Counsel

SHARE AND BOND REGISTRAR

Computershare Investor Services Limited
 Level 2, 159 Hurstmere Road
 Takapuna, Auckland
 Private Bag 92-119
 Auckland 1020
 Telephone: (09) 488 8700
 Facsimile: (09) 488 8787

LEGAL ADVISERS TO THE OFFER

New Zealand

Bell Gully
 Vero Centre
 48 Shortland Street
 PO Box 4199
 Auckland

Australia

Herbert Geer & Rundle
 Level 21, 385 Bourke Street
 GPO Box 524
 Melbourne 3001
 Victoria
 Australia

LEGAL ADVISERS TO THE VENDOR AND PROMOTER

Minter Ellison Rudd Watts
 Bank of New Zealand Tower
 125 Queen Street
 PO Box 3798
 Auckland

ORGANISING PARTICIPANTS AND JOINT LEAD MANAGERS

First NZ Capital

Level 20, ANZ Centre
 23-29 Albert Street
 PO Box 5333
 Wellesley Street
 Auckland
 Telephone: 0800 005 678
 Facsimile: (09) 302 5580

Forsyth Barr Limited

Level 6, Forsyth Barr House
 Cnr Lambton Quay & Johnston Street
 PO Box 5266
 Wellington
 Telephone: 0800 367 227
 Facsimile: (04) 499 7466

CO-MANAGERS

ABN AMRO Craigs Limited
 Farming House
 102-104 Spring Street
 PO Box 13155
 Tauranga
 Telephone: 0800 272 442
 Fax: (07) 571 8625

Macquarie Equities New Zealand Limited

Level 14, Phillips Fox Tower
 209 Queen Street
 PO Box 2006
 Shortland Street
 Auckland
 Telephone: (09) 357 6931
 Fax: (09) 309 6220

AUDITOR

Ernst & Young
 41 Shortland Street
 PO Box 2146
 Auckland



Carpetmaker to the world