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EXFTX LIMITED (IN RECEIVERSHIP & IN LIQUIDATION) ("Feltex")

(This company was called Feltex Carpets Limited until 1 December 2006)

LIQUIDATORS SECOND REPORT

Pursuant to Section 255(2)(d)
of the Companies Act 1993

For the Period from 13 December 2006
to 12 June 2007

1. PROGRESS OF THE ADMINISTRATION OF THE LIQUIDATION

The liquidators report herewith on the progress made in the liquidation of EXFTX Limited (In Receivership & In Liquidation). Attached to this report is a copy of the Receivers' Statement of Realisations and Distributions to 21 May 2007.

This second report to creditors follows the first report and should be read in conjunction with the first report. This report is being sent to all shareholders and to all creditors who have filed a claim in the liquidation.

2. REALISATION OF COMPANY ASSETS

The Receivers sold all of the business and assets of Feltex to Godfrey Hirst. The Godfrey Hirst offer was accepted by the receivers for all of the assets and business of Feltex in New Zealand, Australia and the U.S.A. on 3 October 2006.

Settlement of the sale to Godfrey Hirst took place on 28 November 2006.

There are some asset matters that the liquidators continue to explore and hope to report on in the next report.

3. CREDITORS CLAIMS

3.1 Secured Creditors

The Feltex Group of companies were served with demands from Australia and New Zealand Banking Group Limited and ANZ National Bank Limited dated 20 September 2006, for A\$119.5 million. Interest and charges have continued to accrue since that date.

In the six month period to 21 March 2007, the receivers of the New Zealand entity have made repayments amounting to A\$48.9 million and the Receivers of the Australian companies under the cross guarantees, have repaid A\$52.9 million.

The remaining balance due to the General Security Agreement holder as at 21 March 2007 according to its demand and the receivers' reports was A\$17.7 million, plus accrued interest.

Despite several clear requests over some time for an estimate of the bank's shortfall the bank's lawyers Buddle Findlay, made no attempt to give any such estimate. As recently as 8 June 2007 Buddle Findlay claimed in a letter to our Counsel that the shortfall was simply unknown.

The liquidators considered Buddle Findlay were resisting all attempts by the liquidators to find out the overall position. The liquidators therefore contacted directly the Corporate Portfolio Management team at ANZ, Melbourne, Australia. The ANZ bank itself received the requests of the liquidators in a courteous and professional manner. They advised as follows:-

The shortfall to the bank at the present time is made up of NZ\$5.084 million in New Zealand together with A\$12.619 million in Australia. The Deed Administrators in Australia has recently sold a 50% share of an Australian subsidiary. The amount to come from this sale is contingent upon litigation which is presently on foot. We have been advised that if the litigation is successful an amount of approximately A\$10 million could be available to reduce the amounts owing to the banks. Of this amount approximately A\$2.4 million would flow through to reduce the shortfall in New Zealand.

There is also the matter of a contingent claim arising from any loss in Australia. Whether such a claim would be accepted has not yet been determined.

We have not yet reached a view on the banks' security and there are some issues we need to explore and documents we are seeking from the banks before we can do so.

3.2 Preferential Creditors

The receivers have paid the following preferential claims:

	NZ\$
Employee claims – Holiday pay and redundancy	5,714,703
Inland Revenue Department – PAYE	599,236
Inland Revenue Department – GST refund received	(89,343)
Customs	120,958
	<hr/>
Total	NZ\$ 6,345,554
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According to the Receivers' reports, there are no outstanding preferential claims. All remaining employees' claims are unsecured claims in the liquidation. These claims represent redundancy, long service leave entitlements, holiday pay and expenses.

3.3 Unsecured Creditors

As at the date of preparing this report 603 unsecured creditors claims have been received which total \$14,978,678 and 146 Shareholders claims have been received totalling \$6,153,357.

Many employees have not lodged claims for the unsecured amounts that they may be entitled to.

3.4 Shareholders

Many Shareholders have lodged claims as unsecured creditors. Further detailed information has been sought from these shareholder claimants and no decisions have been made as yet to admit or reject such claims.

4. INVESTIGATIONS

- 4.1 The liquidators have recovered many of the books and records and legal files of the company. A large volume of company records are located in Australia with Godfrey Hirst. It has been difficult to obtain this material from a distance and bearing in mind the expense and there are some questions as to whether the files we may wish to view are complete. The liquidators of the Australian subsidiary have been helpful in assisting us and we have received copies of a large volume of important material.
- 4.2 The liquidators have examined the books and records to ensure all assets have been properly accounted for.
- 4.3 We have had difficulty obtaining access to important banking records and in the end needed to make a court application. To our surprise the banks are now actively opposing this application to access their documents and a defended hearing is set for November 2007. We think the information on the bank files will help us considerably to advance matters, and the banks opposition is certainly going to delay matters.
- 4.3 The liquidators have however been able to assess sufficient information to make demand on the directors of the Company alleging breaches of various provisions of the Companies Act 1993 and Financial Transaction Reporting Act and also foreshadowing other possible claims. The issues we have made demand in respect of include:
- a) the manner in which the directors dealt with the sale of the business to Godfrey Hirst and/or merger with them in 2005 and 2006 (the sale in 2006 if completed would have seen all creditors paid and shareholders receive something. The losses claimed are therefore substantial and increase in relation to the 2005 issues);
 - b) the decision to allow Turner Co to carry out due diligence on the company in 2006, which was done in the face of an agreement with Godfrey Hirst and against opposition from the banks;

- c) the agreement to amend banking conditions in October 2005. Those terms were more restrictive for the Company and resulted in significant increases in risk premiums as well;
- d) the trading of the company from June 2006 in particular, to the date of receivership, but generally for the period the specific issues arise;
- e) capital expenditure decisions made, including the acquisition of tufting equipment in the sum of \$5,261,587 for the year end 2003 and \$7,230,797 for the year end 2005;
- f) the extent that the Securities Commission makes findings that the Company has any liability for failures to meet ongoing disclosure obligations, then such losses that the Company may suffer as a result.

4.4 The Securities Commission is expected soon to provide us with a draft report on whether or not the Company in its view breached the ongoing disclosure obligations under the Securities Markets Act 1988. That Act does not directly impose a liability on directors in relation to ongoing disclosure issues. This area is complex and the liquidators have a number of issues to consider. The liquidators recognise that should the Securities Commission express a liability opinion, then there are likely to be more claims in the liquidation. But, for the moment we simply await the draft report. Much of the work responding to issues was done before the Company went into liquidation.

4.5 The liquidators, in particular Mr Vague, have spent a considerable amount of time looking into IPO issues. This has been done without any funding and is so far a cost that the liquidators have had to carry as unrecoverable time. It is understood that a group of shareholders intend to take action against the IPO directors. What role if any the Company would have in relation to that remains unclear at present.

4.6 There are several potential voidable transactions with payments being made to creditors/suppliers to the Company in circumstances that appear to infringe s 292 of the Act. The liquidators are obligated to investigate these issues and actions are being taken as appropriate.

4.7 The liquidators are currently considering all avenues of recovery.

5. FUNDS / LIKELY OUTCOME

The receivers have reported that there may be a shortfall out of the physical assets to the debentureholder. It therefore follows that any return to creditors and to shareholders will be through successful Court actions taken by the liquidators.

6. MATTERS DELAYING COMPLETION OF THE LIQUIDATION

Pursuit of the claims against directors is expected to take some time.

7. DISCLAIMER

The Liquidators do not accept any responsibility or liability for any errors, omissions or misinformation contained in this report. The liquidators do not accept responsibility or liability for any losses occasioned to any party as a result of the circulation, publication, reproduction, or use of this report.

8. STATEMENT OF AFFAIRS

We attach the Receivers statement of the company's affairs. This document is reproduced from information contained in the Receivers' report. The liquidators have not yet received full information on the sale or details of payments to the bank. The Liquidators are not yet able to express an opinion on the validity of the statement of affairs which was prepared prior to the sale of business.

The Statement of Affairs must be read in conjunction with Note 3 which details the amount owing to ANZ under cross guarantee.

9. WEBSITE www.mvp.co.nz

Whilst we do not intend to hold a creditors meeting, we do invite creditors and shareholders to communicate information to us. Please use our website to see regular updates of the progress of the liquidation and for costs.

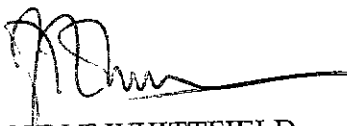
Creditors are advised that this report and all subsequent reports will be available on the liquidator's website. The liquidators will provide a regular bulletin updating creditors with current progress in actions taken. This bulletin will be lodged on the website to reduce costs. Please send us your email address if you would like further reports sent to you.


10. CONCLUSION

Based on the above the liquidators cannot yet estimate an expected date of completion.

Any queries can be directed to John Whittfield, Peri Finnigan or John Vague of these offices on 0-9-303 0506 or by visiting our website at www.mvp.co.nz.

Yours faithfully
for EXFTX LIMITED
(IN RECEIVERSHIP & IN LIQUIDATION)


JOHN T WHITTFIELD
LIQUIDATOR


JOHN L VAGUE
LIQUIDATOR


PERI M FINNIGAN
LIQUIDATOR

DATED this 15th day of June 2007

Appendix 1 (a)

EXFTX Limited (In Receivership)(In Liquidation)

**Receipts and Payments Summary - NZ Dollar Bank Accounts
From 22 September 2006 to 21 March 2007**

	NZ \$
Receipts	
Sale of assets/debtor receipts	17,459,963
Interest	84,962
Grant refund	45,000
Pre receivership GST refund	89,343
Transfer from Receivers AU\$ bank account	<u>8,199,704</u>
<i>Total receipts</i>	25,878,972
Payments	
<i>Operating costs</i>	
Raw materials	4,500,161
Customer rebates/commissions	542,452
Freight	1,560,015
Payroll costs (including preferential claims)	13,314,489
NZ Customs	401,254
Insurance	511,390
Rent, rates and occupancy costs	201,739
Utilities	810,698
Other overheads	801,258
Receivers fees	1,677,474
Legal fees	557,520
Other professional advisors fees	64,884
<i>Total payments</i>	<u>24,943,334</u>
Balance as at 21 March 2007	NZ \$ <u>935,638</u>

Appendix 1 (b)

EXFTX Limited (In Receivership)(In Liquidation)

**Receipts and Payments Summary - Australian Dollar Bank Accounts
From 22 September 2006 to 21 March 2007**

	AU \$
Receipts	
Sale of assets	52,000,000
Debtor receipts	5,432,403
Interest received	<u>5,486</u>
<i>Total receipts</i>	57,437,889
Payments	
Bank charges	230
Overseas suppliers	612,342
Repayments to General Security Agreement holders	48,604,608
Funds transferred to Receivers NZ\$ bank account	<u>7,220,709</u>
<i>Total payments</i>	<u>56,437,889</u>
Balance as at 21 March 2007	AU \$ <u>1,000,000</u>

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Appendix 1 (c)

EXFTX Limited (In Receivership)(In Liquidation)

Receipts and Payments Summary - US Dollar Bank Account
From 22 September 2006 to 21 March 2007

	US \$
Receipts	
Debtor receipts	1,037,618
Feltex USA Inc - cash held at the date of appointment	205,637
Interest received	<u>9,497</u>
<i>Total receipts</i>	1,252,752
Payments	
Bank charges	208
Overseas supplier/customer payments	1,046,907
Repayment to General Security Holders	<u>205,637</u>
<i>Total payments</i>	<u>1,252,752</u>
Balance as at 21 March 2007	US \$ <u>NIL</u>