



CAVALIER  
CORPORATION

Annual Report 2018

*FY18 has been a turnaround year for Cavalier Corporation. As we roll out our new strategy, to be a marketer of high end carpet solutions, we are confident we are on track to long-term sustainable growth, with improving margins and quality earnings.*

The Board, management and staff are excited and optimistic about our future, particularly the company's renewed focus on wool, and the opportunity this presents locally and globally.



This Annual Report is dated 24 September 2018 and is signed on behalf of the Board of Directors by:

**Alan Clarke**  
Chairman

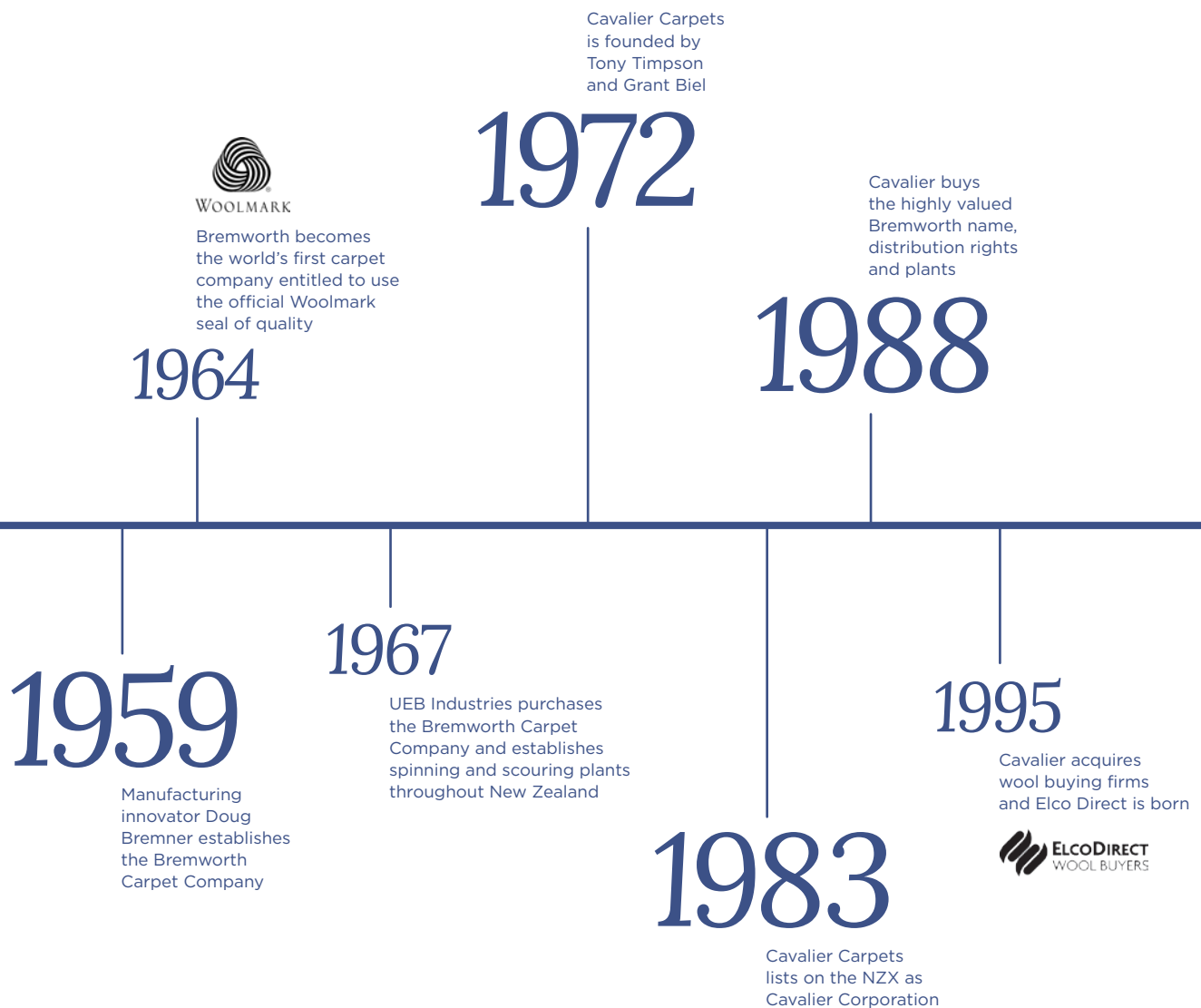
**Sarah Haydon**  
Director

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## HISTORY OF CAVALIER CORPORATION

*Our history runs deep.* With almost 60 years in operation, Cavalier certainly has a wealth of experience in carpet manufacturing. Take a look at just how far we've come...





Cavalier Bremworth launches its rug offering to retailers and consumers online

Cavalier launches new high margin focused strategy



Cavalier acquires a 70% stake in Auckland carpetmaker Norman Ellison Carpets. This was increased to 100% in early 2012

2018

2008

Australian tile business Ontera sold

2015



2002

Cavalier acquires Australian carpet tile business Ontera

2011

Cavalier acquires 75% stake in Christchurch felted yarn company Radford Yarn Technologies, increased to 100% in December 2012

2016-17

Cavalier restructures its woollen spinning operations



## YEAR IN REVIEW

### Revenue

# \$148.1m

Compared with previous year's \$156.1 million – with the \$8.0 million/5% reduction attributed to the broadloom carpet operation as a result of softer market conditions in both New Zealand and Australia and a short-term impact on supply to Australian customers as a result of the FY17 manufacturing consolidation programme.

### Normalised earnings<sup>1</sup>

# \$4.0m NPAT \$10.0m EBITDA

\$4.0 million net profit after tax and \$10.0 million EBITDA, compared with \$1.9 million loss and \$2.6 million the previous year – largely as a result of the internal transformation in FY17, better operating conditions and focus on costs.

### Balance sheet

## STRONGER FINANCIAL POSITION.

With significantly reduced debt and lower working capital employed.

### Reduction in net debt

# \$10.8m

Reduction in net debt from \$40.2 million to \$29.4 million coming from \$12.1 million in operating cash flows as a result of improved profitability and reduction in inventory.

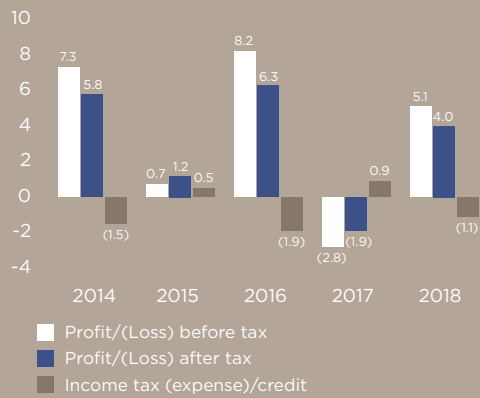
## A NEW STRATEGIC FOCUS.

A new strategy has been developed that focuses on building a great New Zealand flooring business with an increased **focus on wool and higher-margin products**. This will be realised through new marketing, sales and people programmes, underpinned by efficient manufacturing and high quality standards.

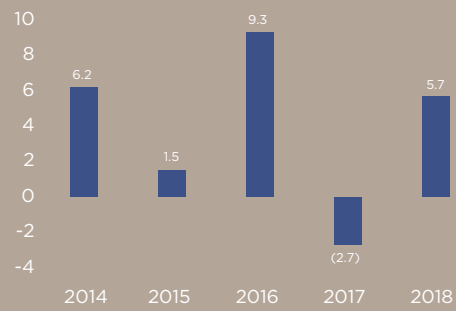
## FY19 OUTLOOK.

A further year of **improving financial performance and growth**, with the company better positioned to benefit from more favourable operating conditions and realising a full period of operating efficiencies.

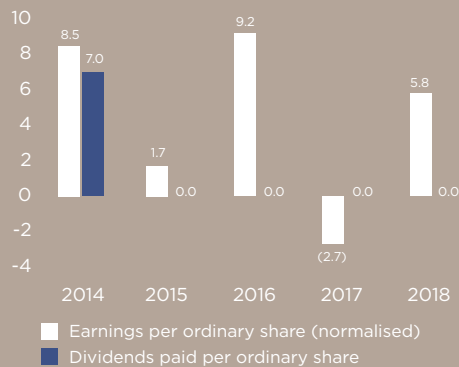
**Financial results (normalised)<sup>1</sup>**  
\$ millions



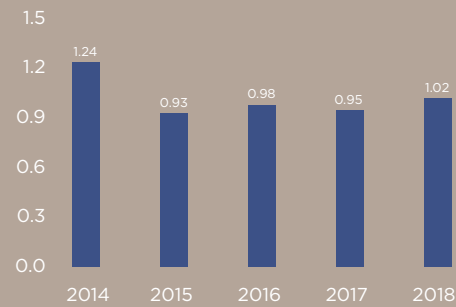
**Return (normalised)<sup>1</sup> on average shareholders' equity**  
percentage



**Earnings (normalised)<sup>1</sup> and Dividends paid per ordinary share**  
cents



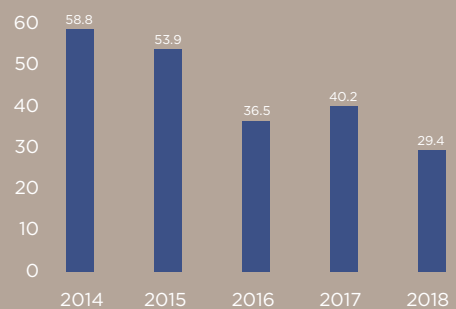
**Net tangible asset backing per ordinary share**  
\$



**Total assets employed and Shareholders' equity**  
\$ millions



**Net debt**  
\$ millions



<sup>1</sup> All references to "normalised" are to the normalised results used in the underlying calculations. Normalised is a non-GAAP (Generally Accepted Accounting Practice). A reconciliation between reported and normalised can be found on pages 76 and 77 of the Annual Report.



**Alan Clarke**  
Chairman

**Paul Alston**  
Chief Executive Officer

# *Chairman &* Chief Executive Officer's Report



## *Cavalier* is on the brink of achieving a special milestone. Next year we will celebrate 60 years of carpet manufacturing in New Zealand.

It has been quite a journey. From the days of Bremworth and UEB to the formation of Cavalier by Tony Timpson and Grant Biel, who went on to acquire Bremworth and become the dominant force in carpet manufacturing in New Zealand. This was a New Zealand filled with 70 million sheep, little competition in the carpet space and no synthetic alternatives. Cavalier's resulting profits were high and dividends regular.

But the market moved towards synthetics and imported carpet hit the shelves, putting pressure on traditional products and supply channels.

It is on the back of these challenging times that the modern day Cavalier has been forging ahead. As we round the corner into 2019 and our 60<sup>th</sup> Birthday, it's pleasing to do so with a sense of optimism and excitement

about our future. A future aligned to high quality, high end carpets and a strong wool focus. It is now clear that we are a marketer of high quality carpets – not simply a manufacturer.

In the last couple of years significant changes have been made to the business to address our over capacity and better align the company to our markets. All to ensure Cavalier is a profitable entity and an attractive investment vehicle for our shareholders. We still have a great deal to do, but we are now on track with a clear new strategy to get us there.

We will remain New Zealand based, we will build on our established and proven expertise, and we will continue to make some of the world's best carpet for many years to come.

## CHAIRMAN & CHIEF EXECUTIVE OFFICER'S REPORT

### Performance

It has been a significant turnaround year for Cavalier with final results at the top end of the earnings guidance issued to the market.

The company has shifted from a net loss position of \$-2.1 million in FY17 to a net profit of \$4.1 million in FY18. Normalised EBITDA was \$10.0 million, up \$7.4 million on last year. Improved cash flows to \$12.1 million resulted in a \$10.8 million reduction in debt to \$29.4 million. Inventory levels improved with yarn and carpet stocks reduced by \$3.3 million.

Cavalier's internal transformation and focus on cost management has enabled the business to reduce debt and increase profitability. Macroeconomic factors, such as the lower wool price, and exchange rates also contributed to the improved results.

Wool buying business Elco Direct had a strong year against a backdrop of some of the most difficult trading conditions in recent history.

However, carpet sales continued to decline year-on-year with revenues of \$123.7 million, \$8.0 million less than FY17. FY18 sales were affected by softer market conditions in both New Zealand and Australia. There was also a significant, short-term impact on our ability to supply customer orders as a result of the manufacturing consolidation programme.

### FY19 and beyond

Cavalier is now back on track. We are focused on returning to sustainable and profitable growth. We will achieve this by realising additional operating efficiencies and concentrating on sales. We are already working closely with our trade customers, and launching a new sales strategy across New Zealand and Australia.

Linked to this will be an increasing focus on wool for Cavalier. Wool is truly nature's miracle fibre. Its virtues are being rediscovered as environmentally aware customers look for non-synthetic solutions. We believe the increasing environmental conversation bodes well for wool, and very well for Cavalier in the medium to long term.

Our home markets of New Zealand and Australia will remain a priority, and we will also carefully consider opportunities in other markets that meet strict criteria.

On the product and marketing side we will continue to lead – particularly in the development of innovative carpet ranges. The sought after Cavalier Bremworth brand was built on the product virtues of quality and innovation. With an impressive, and we believe, world leading product development pipeline now in place, we are very confident in what we have coming to market in FY19.

Innovation will continue to be a differentiating factor for Cavalier and ensure our pride of place as a high quality New Zealand business. We will also continue to invest in and develop our market leading, Cavalier Bremworth *World of Difference* brand presence – something that is working very well for us presently.

We understand without the involvement of our staff our business will not thrive, and in FY18 we commenced more engagement with our people. With new resource in this



## We are working closely with our trade customers and launching a new sales strategy across New Zealand and Australia.

area, and programmes underway, we are already starting to see value being delivered. Our intention is that this will contribute to productivity gains in coming years.

Manufacturing and operating efficiencies will remain very important in FY19. While significant progress has been made from our consolidation programme we still have much to do. Planning is underway for a new IT platform that will further improve operations.

### **Dividends**

While FY18 delivered a strong improvement in results, dividend payments remain suspended as the company establishes a sustainable earnings and growth performance record.

### **Acknowledgements**

This year our Warehouse Manager Ross McKimmon retired after 47 years with Cavalier. We'd like to thank Ross for his commitment to our business.

To our 470 staff who contribute their passion and energy, to not only producing and marketing our beautiful carpet, but to creating a *World of Difference* every day, we recognise and thank you all.

We'd also like to acknowledge Sarah Haydon who is retiring from the Cavalier Board after six years – with three spent as Chair. Sarah assisted Cavalier through a difficult period, with her governance and commitment to the business much appreciated.

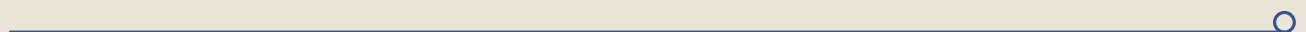
### **Summary**

Cavalier remains mindful of our recent past. We have made considerable changes and redefined our focus to be a marketer of carpets, not simply a manufacturer, in order to be optimistic about our future. We step into FY19 with a clear purpose and a determination that we can, in our 60th year, move our company forward into growth and delivering shareholder value.

**Alan Clarke**  
Chairman

**Paul Alston**  
Chief Executive Officer

24 September 2018



# From manufacturing rationalisation to profitable growth.

Cavalier's focus in recent years has been to transform the business in response to challenging and changing markets. This was done by relocating and restructuring our manufacturing base, selling non-core assets, and reducing costs.

Our objectives were simple:



In the 2018 financial year significant progress was made in the above areas. Moving through to FY19 we now have a sound platform in place and a new strategic focus.

## Our Future Strategic Focus

Cavalier has a long and proven history as a manufacturer of high quality carpet solutions.

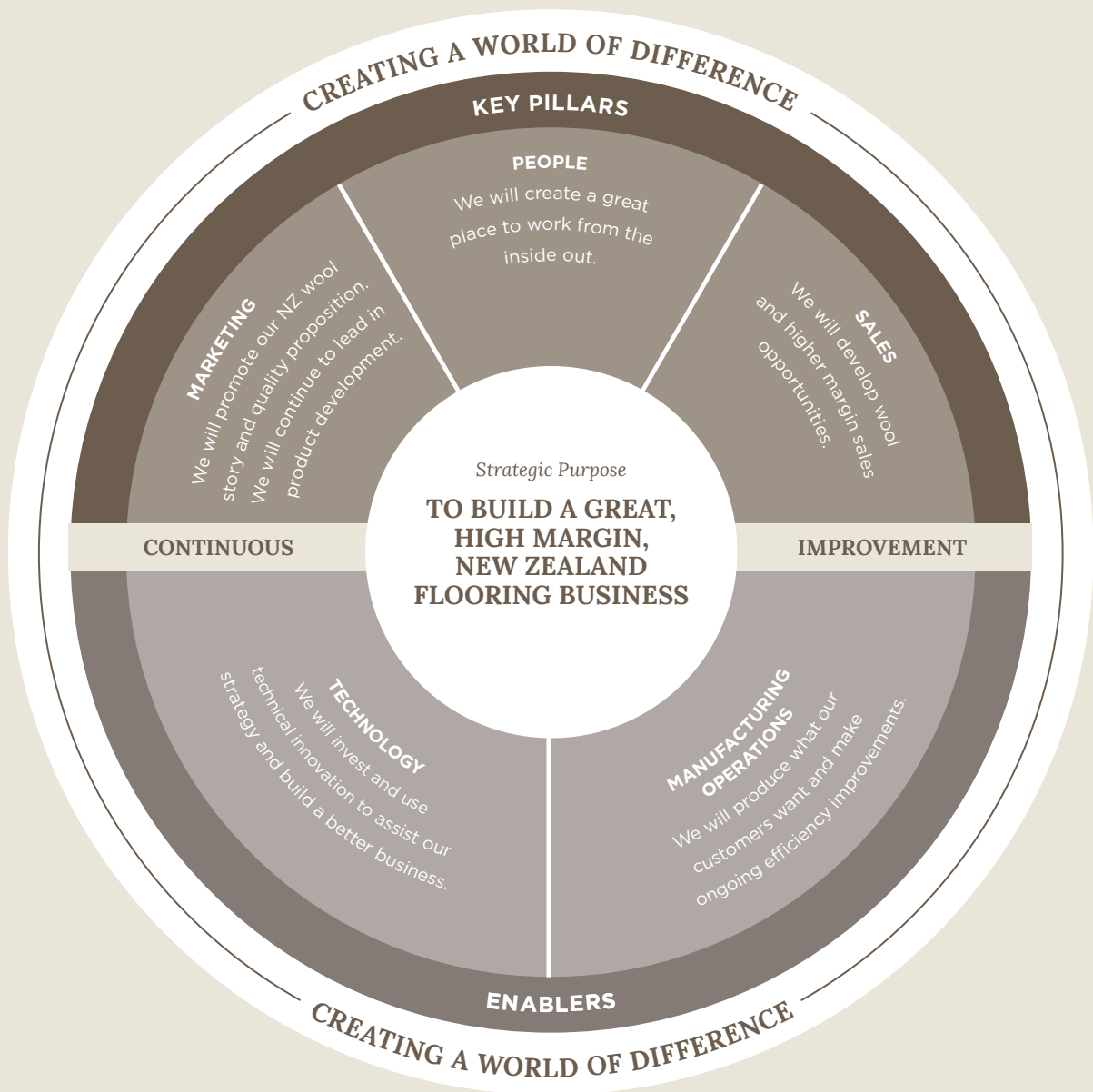
Our manufacturing facilities have been right sized and are operating more efficiently as a result of our relocation and rationalisation programme.

Our core strategic purpose is now to build a great high margin flooring business. This means a change in focus from manufacturer to marketer, with a business wide emphasis on wool.

It makes sense that we build on our established reputation and focus our efforts on higher margin products, particularly given growing environmental concerns regarding the overuse of plastics. This presents an important and very real opportunity for our business, especially given our heritage and expertise in wool, and our recent introduction of recycled products.

We also recognise some of our customers will still want high quality synthetic options, which we will continue to make available.

So our future focus is clear. We will focus our efforts on being a marketer of high quality environmentally responsible carpet solutions, with a wool bias. All based on Cavalier's proven and differentiated position as an innovator of high quality flooring solutions.



## How we get there

### Marketing

Cavalier's highly influential Cavalier Bremworth brand and *World of Difference* positioning will continue to evolve with our strategy. Our alignment with fashion will continue. We will also better develop and tell our New Zealand wool story, both here and abroad.

The company's new rug proposition will be given more marketing support in order to drive growth, and we will invest in showrooms in our Auckland and Sydney offices.

Cavalier's world class product development pipeline will receive even more focus and investment to ensure we remain innovation leaders in this space.

### Sales

Realising higher margins requires a higher margin sales focus. Cavalier enjoys excellent retail trade, and building and design relationships across New Zealand and Australia.

These relationships will be expanded and incentivised to develop higher margin sales opportunities.

Interior designers and architects will also receive more focus given their alignment with our product proposition.

We have established international sales channels and identified new opportunities in offshore markets. Potential compatible investment opportunities will be carefully considered.

### People

Cavalier has a very long serving, skilled and diverse workforce who care deeply about their company.

With designated resource now in place the company is on a path to creating more of an involvement culture – one that harnesses the ideas of our people and brings them to life.

A revitalised culture and communications programme is in development for the 2019 calendar year, with early programmes currently underway.

# Investment in our continued leadership

**Cavalier's marketing activities are being further developed towards our high margin, high end business proposition, with a focus on our beautiful woollen ranges.**

**The added investment in marketing is based on our continued leadership, in both product development and our highly valued Cavalier Bremworth brand.**

## **Product Development**

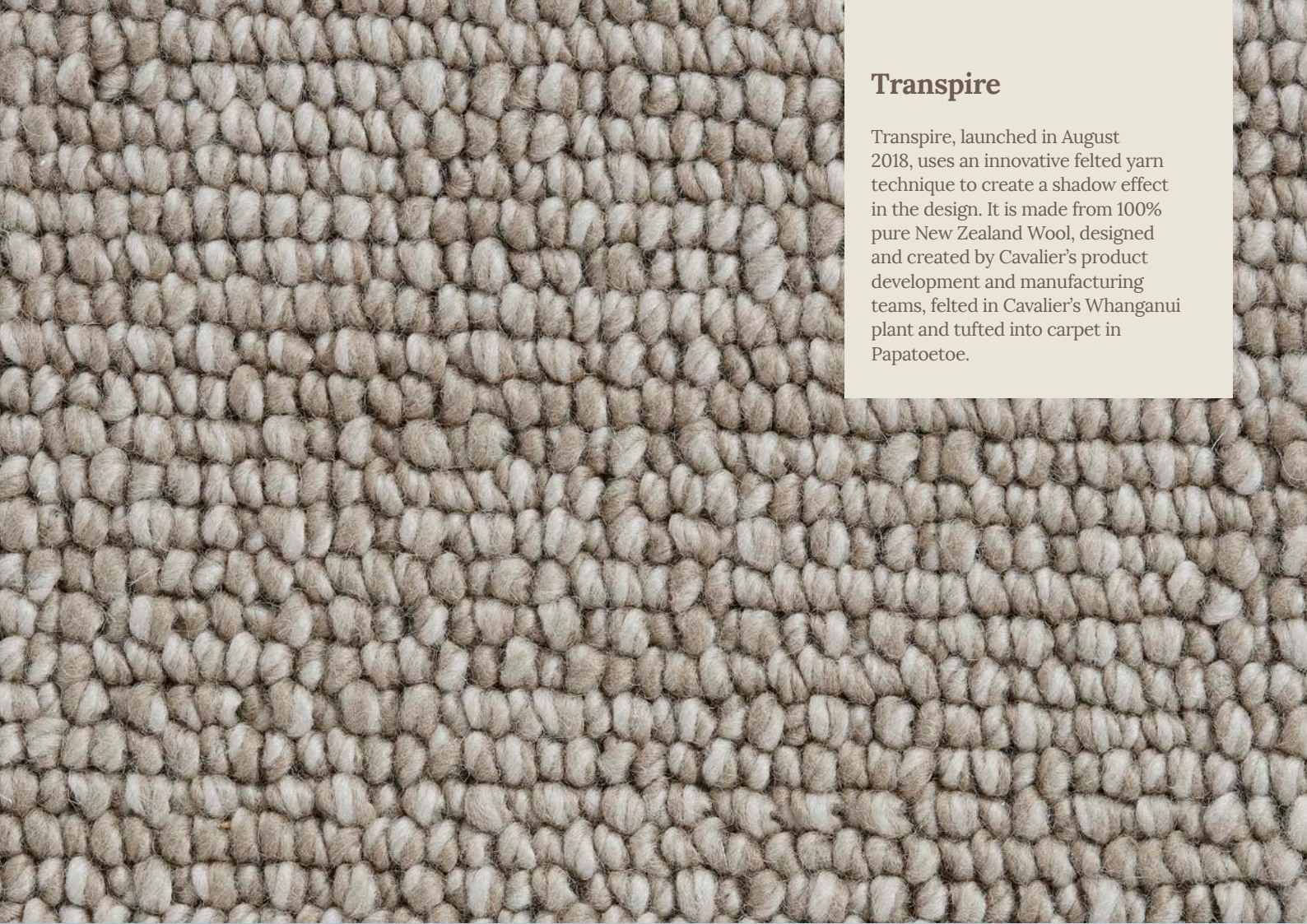
Leadership in product development is not new for Cavalier, in fact it is what has set us apart for many years. It is therefore imperative and a market opportunity that we not only maintain, but grow our capability in this area.

This will mean investment in research and development around yarn technologies, more design focused products, and the creation of ranges that command a premium.

Underpinning this is a focus on wool, nature's miracle fiber, along with synthetic options, where our clients want the reassurance of our reputation for quality.



Leadership in product development is not new for Cavalier, in fact it is what has set us apart for many years.



## Transpire

Transpire, launched in August 2018, uses an innovative felted yarn technique to create a shadow effect in the design. It is made from 100% pure New Zealand Wool, designed and created by Cavalier's product development and manufacturing teams, felted in Cavalier's Whanganui plant and tufted into carpet in Papatoetoe.

## Cavalier Bremworth – A World of Difference

Our hero Cavalier Bremworth brand is synonymous with quality and trust – having been voted New Zealand's most trusted carpet brand five years running. It is this strong platform and the unique *World of Difference* positioning which aligns with fashion and design, that will form the basis for further development and sharing of the Cavalier Bremworth story.

We believe it's time to tell our unique New Zealand story, both locally and internationally. This will include showcasing our rich wool heritage and our focus on innovation and craftsmanship.

It is this storytelling which will underpin selective entry to new markets and also reinforce and reinvigorate existing trade relationships.

Australia will be a major marketing focus for 2019 where Cavalier Bremworth high end wool products are extremely sought after.



# Proactive sales strategy for higher margins

**The creation of a higher margin flooring business means a focus on higher margin sales, something that needs to be achieved without undermining existing sales volumes.**

Cavalier is now in a far better position to exert more of a proactive sales strategy in the market place, our manufacturing consolidation is complete and our stock levels are sound.

It is now our intention to become the dominant force in the New Zealand market, and to grow our market share in Australia. We are also working with our international customers to develop opportunities, and are carefully considering new market options and investment channels.

Realising sales growth will be based on working closely with marketing around the design and implementation of customer relationship management programmes, customer training programmes and customer incentive programmes.

A comprehensive wool training module for retail customers, unique to Cavalier Bremworth and our story, has already been successfully launched across Australasia. Retailer incentives have been aligned to our brand and business model incentives, and sales training undertaken.

In addition, work is being done to develop higher end, niche market opportunities with interior designers and architects – people who will naturally identify with Cavalier Bremworth's premium product offering. Rugs will also be a focus for this segment in 2019.

In 2018, we launched our rug offering to support our broadloom carpet business. Rugs are available through participating retailers or for purchase on our website. We will continue to develop this proposition to optimise future sales.



It is now our intention to become the dominant force in the New Zealand market and grow market share in Australia.





- World of Difference -

# Hot Spot Programme

*In 2018 Cavalier* kicked off a continuous improvement programme to exceed customer expectations and improve business systems and processes.

**This programme is strongly linked to Cavalier Bremworth's *World of Difference* positioning. Cavalier has adopted a *World of Difference* as far more than a marketing tagline – it has become a mantra for the business.**

We want to create a *World of Difference* for our customers (internal and external) every day. That means exceeding expectations and looking at our own systems and processes in order to achieve this – which is where the Hot Spot Programme comes in.

The *World of Difference* Hot Spot Programme is all about putting the customer at the centre of our strategy, and building our business around their needs. We believe this is what will ultimately differentiate us in the marketplace.

Through the programme we've identified key customer Hot Spots that we can target for improvement. We've then prioritised these Hot Spots and created cross-company project teams to tackle each Hot Spot.

Staff are enjoying the opportunity to step back and analyse a process, to question why we do things a certain way, and then have the capability to enact quick change and also recommend and explore larger scale process improvements. This is making things more streamlined and easier from a business perspective, but also directly impacting customers in a positive way.

The *World of Difference* Hot Spot Programme will be on-going in the business. When we are satisfied with the progress made in one area or Hot Spot, we will identify another Hot Spot to prioritise. Internally staff are relishing the opportunity to create a *World of Difference* in a very tangible way, and contribute to the success of Cavalier.

# A look at who we are

**Cavalier has a truly diverse workforce with three New Zealand manufacturing facilities, an extensive North Island wool buying network, dedicated sales teams in New Zealand and Australia, and centralised corporate functions in Auckland.**

Thirty percent of Cavalier staff have been with the business for more than 15 years, and 21% for more than 20 years. This year we farewelled Warehouse manager Ross McKimmon after 47 years of loyal service – his tenure is second only to that of company co-founder and Board member Grant Biel.

We are proudly multicultural, with a Māori influence right across the business, and a long-standing Pasifika make up at our Papatoetoe plant. Our Australian team of 30 staff – who are themselves from varied ethnic backgrounds – also enjoy contributing to our company culture.

Women contribute greatly to Cavalier across all levels from the Executive team to the factory floor. This is not something that has happened by accident. The foundations for positive gender representation were laid by Grant Biel in the 1970's when he went against the labour laws of the time to pay women at equal rates to

men. He also allowed women to work the nightshift – something that was 'frowned upon' at the time.

Half of Cavalier's eight shift supervisors in the carpet factories are now women, most of them long serving employees. Two members of the eight-member Executive team, and two of our six directors are also female. This is not something that has been mandated, it is something that has been fostered on the basis of 'equality of opportunity'.



## Robert Haren

**In 2016 Robert experienced a tragic, non-work related, injury when he jumped off a trailer at the dump. He subsequently spent six months in hospital, and very sadly Robert left Burwood Spinal Unit in a wheel chair.**

Robert works in our Dye House in Napier, he's been with the business 30 years, having even done a stint on reception.

Robert says his return to work at the plant was crucial to assist with mental stimulation and wellbeing. He is also very grateful for the 'huge support' from the company. This year Cavalier purchased Robert a stand-up wheel chair for the Dye House.

"It's really good. Really beneficial for my rehab, and good for my bones. It also means I can reach things that I need!"

In line with our Health and Safety objectives, Cavalier is committed to providing a safe and supportive physical and cultural environment to all staff.



*"I love my job.  
I want us to be  
successful."*

## Patti Miller

**Whanganui Night Shift Supervisor Patricia Miller (Patti) is only 32 years old and she's already worked for Cavalier for 10 years.**

Patti is passionate about her job, passionate about her people and passionate about the future of Whanganui.

Patti has been identified by the business as emerging talent having recently been sent on a textile course to broaden her knowledge of the industry. She says this opportunity made her feel very happy to know that the business thinks she is worth investing in. She is keen to further her studies and professional development, on her own steam, to grow in herself and her career.

When Patti was asked if she would like to run the plant one day her emphatic response was: "I'm going to run the plant one day".

### **Business is about people**

People who work for Cavalier speak of a deep pride in the quality New Zealand made product they produce. People who work for Cavalier are deeply passionate about the ongoing success of the business. We know this because we talk to them, and involve them in what we do and how we do it.

Moving into 2019 it is time to harness that passion and pride, to not just make Cavalier a great place to work, but to make Cavalier a desirable New Zealand company that people want to be part of at all levels.

As part of our strategy we will therefore be investing more in people, culture and communications programmes. We need to attract key talent, and have the ability to grow and retain our existing people.

Plans are underway for a company-wide engagement survey, the results of which will inform our people programme, and help drive our management decisions. It is our

intention to build more of an inclusive involvement culture by using this survey and the Hot Spot Programme as a reference base.

Cultural activities and celebrations will continue. The company recently came together to support Tongan staff with families impacted by Cyclone Gita. 'Wear Something for Tonga' Day was embraced by our people from Western Australia to Christchurch. In addition to funds raised for the families in Tonga, a donation was made by the company to help rebuild well known high school Tupou College – a school previously attended by a number of Cavalier staff. This was done by involving our on-staff Tongan Kaumatua, who guided our efforts and ensured our support was appropriate.

Our people want to help make Cavalier great again, they have told us they want to be informed and enabled to do so. It is the task of the People programme in 2019 to bring this to life.

### **Diversity and Inclusion Policy**

In August 2018 the Board approved Cavalier's new Diversity and Inclusion Policy, based around creating a culture of 'equality of opportunity', to drive business engagement and success.

Progress on the objectives of the policy has already been made with the policy being shared with staff via the Annual CEO Roadshow.

Research suggests that a focus on culture and people programmes is one of the best promoters of diversity in the workplace. Cavalier has therefore identified cultural activities and celebrations as a key objective in its Diversity and Inclusion Policy.

## BOARD OF DIRECTORS



### **T H G (George) Adams**

DipFSA(Hons), FCA, CMIInstD

George Adams is an independent Director and was appointed to the Cavalier Board on 1 June 2018.

He is also a member of the Board's Audit, Remuneration and Nomination Committees.

George brings outstanding commercial and governance experience from more than 25 years of international business experience in the fast-moving consumer goods and telecommunications industries, as well as a strong background in occupational health and safety.

George was previously Managing Director of Coca-Cola Amatil New Zealand and Fiji, a role he held for 10 years. During this time, George also chaired the New Zealand Food and Grocery Council. Prior to moving to New Zealand in 2003, George was Finance Director of British Telecom Northern Ireland and Group Finance Director of Dublin-based bottling company Molino Beverages.

He is currently Chairman of Mix Cosmetics Limited, Apollo Foods Limited, Insightful Mobility Limited, Nexus Foams Limited, the Business Leaders Health and Safety Forum and the Occupational Health Advisory Board, as well as a director of Tegel Group Holdings Limited.



### **G C W (Grant) Biel**

B.E. (Mech.)

Grant Biel is a non-independent Director and has been on the Cavalier Board since July 1984.

He is also a member of the Board's Audit, Remuneration and Nomination Committees.

Grant is a co-founder of the Cavalier Bremworth broadloom carpet operation and held the position of executive Director from July 1984 to September 1995.

His other directorships include Auckland Air Charter Limited, Heli Harvest Limited and Westburn Investments Limited.



### **A W (Alan) Clarke**

B.Sc.(Hons), MBA, CFInstD

Alan Clarke is an independent Director and was appointed to the Cavalier Board on 1 November 2017.

He was appointed Chairman of the Board in April 2018.

Alan is also Chairman of the Board's Nomination Committee and a member of the Board's Audit and Remuneration Committees.

Alan has extensive governance and strategic experience as a director of both private and publicly listed companies in New Zealand and Australia over the last 26 years. He has held responsibilities as CEO and Managing Director over that time, formulating and implementing several successful strategic initiatives. These included change projects at SGS, a Swiss based multinational, initially in New Zealand and then Australia in the 1990's before he returned to New Zealand to head ElderCare, now Abano Healthcare Group, and most recently Hellaby Holdings.

He is currently an independent director of nib NZ, a health insurance provider, and is Chairman of the Advisory Board of Intergroup Limited.



**S E F (Sarah) Haydon**

B.Sc., FCA, CMInstD

Sarah Haydon is an independent Director and has been on the Cavalier Board since August 2012.

She was Chairman of the Board from July 2015 to March 2018 and is currently Chairman of the Board's Audit Committee and a member of the Board's Remuneration and Nomination Committees.

Sarah has a strong financial, commercial and leadership background.

She is currently a director of Ports of Auckland Limited, The Co-operative Bank Limited, The Institute of Geological and Nuclear Sciences Limited and Chairman of New Zealand Riding for the Disabled Association.



**J M (John) Rae**

B.Com., LLB, CMInstD

John Rae is an independent Director and joined the Cavalier Board in July 2015.

He is Deputy Chairman of the Board, Chairman of the Board's Remuneration Committee and a member of the Board's Audit and Nomination Committees.

John has degrees in Law and Commerce and spent his early career in banking in New Zealand and London in various treasury and capital market roles for 10 years before returning to New Zealand and undertaking a number of private equity, venture capital and corporate finance transactions in Australasia.

He is an experienced company director, currently Chairman of Activate Tairāwhiti Limited, The National Infrastructure Advisory Board, Smart Environmental Limited, Thos Corson Holdings Limited and Watson and Son LP. He is also a director of Corson Grain Limited, the Eastland Group of companies, The Lines Company Limited, Ngāpuhi Asset Holding Company Limited and WET Gisborne Limited and a Panel Member of the Provincial Growth Fund.



**D V (Dianne) Williams**

B.Com., MBA, CMInstD

Dianne Williams is an independent Director and joined the Cavalier Board in July 2015.

She is also a member of the Board's Audit, Remuneration and Nomination Committees.

Dianne's early career was in marketing in the FMCG sector, driving market dominance for some of New Zealand's favourite brands including Cadbury and Sealord before taking up senior executive roles with companies demanding strong sales and marketing programmes.

She is currently a director of Chartered Accountants Australia New Zealand, Netball Northern Zone (incorporated Society), New Netball Team Limited, Northcote Rd 1 Holdings Limited, Public Trust, Pulse Gp Limited and West Auckland Trust Services Limited.



## Directors' Responsibility Statement



### DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation of the Group financial statements. The Directors discharge this responsibility by ensuring that the financial statements comply with Generally Accepted Accounting Practice and give a true and fair view of the financial position of the Group as at balance date and of its operations and cash flows for the year ended on that date.

### ACCOUNTING POLICIES

The Directors consider that the accounting policies used in the preparation of the Group financial statements are appropriate, consistently applied, and supported by reasonable judgements and estimates. All relevant financial reporting and accounting standards have also been complied with.

### ACCOUNTING RECORDS

The Directors believe that proper accounting records, which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate the compliance of the financial statements with the Financial Markets Conduct Act 2013, have been kept.

### SAFEGUARDING OF ASSETS AND INTERNAL CONTROLS

The Directors consider that they have taken adequate steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide a reasonable assurance as to the integrity and reliability of the financial statements.

### FINANCIAL STATEMENTS

The Directors present, on pages 27 to 71, the Group financial statements for the year ended 30 June 2018.

These financial statements were authorised for issue by the Directors on 21 August 2018 and, as required by section 461(1)(b) of the Financial Markets Conduct Act 2013, are dated and signed as at that date.

For and on behalf of Cavalier Corporation Limited

A handwritten signature in black ink, appearing to be "A W Clarke".

A W Clarke  
Chairman of the Board of Directors

A handwritten signature in black ink, appearing to be "S E F Haydon".

S E F Haydon  
Chairman of the Audit Committee

## Independent Auditor's Report



### TO THE SHAREHOLDERS OF CAVALIER CORPORATION LIMITED

#### Report on the consolidated financial statements

##### OPINION

In our opinion, the accompanying consolidated financial statements of Cavalier Corporation Limited ('the Company') and its subsidiaries ('the Group') on pages 27 to 71:

- i. present fairly in all material respects the Group's financial position as at 30 June 2018 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

- the consolidated statement of financial position as at 30 June 2018;
- the consolidated income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

##### BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

Our firm has also provided other services to the Group in relation to transfer pricing and income tax return review and scrutineering at the Company's Annual Meeting of shareholders. Subject to certain restrictions, partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. These matters have not impaired our independence as auditor of the Group. The firm has no other relationship with, or interest in, the Group.

##### MATERIALITY

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at \$350,000.



## Independent Auditor's Report (continued)

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### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements.

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The key audit matter	How the matter was addressed in our audit
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Forecasting liquidity and covenant compliance	
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Refer to Notes 2 and 4c to the Financial Statements.

On 29 June 2018 the Group extended the term of its loan facility, and modified loan repayment terms and financial covenants requirements that are measured on a quarterly basis over the term of the facility. The Group complied with the terms of its loan facility during the financial year.

Management have forecast the Group's financial performance, cash flows and financial position to support the Directors' assessment and conclusion that the Group will be able to comply with its loan covenants and loan repayment obligations for a period of at least one year from the issuance of these financial statements. In performing this assessment, assumptions are made in respect of future economic and market conditions, such as forecast sales volumes, expected sales price fluctuations, production efficiencies, forecast USD and AUD exchange rate movements, and forecast wool prices, with consideration of the Group's hedged positions.

In the event that management's forecasts are not achieved and loan covenants are not complied with, the Group may be required to renegotiate its loan facility to enable it to continue its operations.

We have focused on this area because there is judgment about the future performance of the Group and its ability to meet its loan repayment obligations and loan covenant requirements.

We evaluated management's forecasts and the Group's ability to comply with its loan facility terms by performing the following procedures:

- Reviewed terms of the Group's revised facility agreement dated 29 June 2018.
- Evaluated the Group's forecasting processes and the accuracy of previous forecasts by comparing actual performance against forecasts in prior periods.
- Reviewed the Group's forecast financial performance, cash flows and financial position, challenged key assumptions against historical production and market data, reviewed hedging agreements and wool contracts, and considered internal and external factors impacting the business.
- Reviewed key inputs and assessed their consistency with Director-approved forecasts.
- Obtained and reviewed management's projected loan covenant calculations at relevant measurement dates taking into account definitions in the facility agreement.
- Performed a sensitivity analysis of the Group's forecasts.
- Read an independent review of the Group's FY2019 cash flow budget and its underlying assumptions.
- Assessed the adequacy of related disclosures in the financial statements against the requirements of the accounting standards.

Based on our analysis of management's forecasting models and the underlying assumptions, the forecasts are particularly dependent on the Group's ability to achieve sales volumes and planned production efficiencies.

We did not identify material matters that were inconsistent with the Directors' conclusion that the financial statements should be prepared on a going concern basis.

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## Independent Auditor's Report (continued)

### Impairment of non-current assets

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Refer to Notes 5a and 5c to the Financial Statements.

As at 30 June 2018 the carrying amount of property, plant and equipment ('PP&E') and goodwill relating to the Carpets cash generating unit ('CGU') was \$33,712,000 and \$2,362,000, respectively.

The Group's market capitalisation of \$42,581,000 is significantly below the carrying value of its net assets of \$72,222,000 as at 30 June 2018. This disparity is an indicator of potential impairment of PP&E and goodwill allocated to the Carpets CGU.

Management performs an impairment assessment of PP&E where there are indicators of impairment, and annually performs an impairment test of goodwill. Based on this assessment, management determined there is no impairment of goodwill or PP&E as at the balance date.

As disclosed in Note 5a and 5c, the Group uses a Discounted Cash Flow (DCF) model to determine the recoverable amount of the Carpets CGU to which the goodwill and PP&E have been allocated. In performing this assessment, assumptions are made in respect of future economic and market conditions, such as forecast sales volumes, expected sales fluctuations, budgeted production efficiencies, forecast USD and AUD exchange rate movements, and forecast wool prices, with consideration of the Group's hedged positions. Additionally, management determined a terminal growth rate and discount rate which reflect an assessment of the time value of money and the risks specific to the business.

We focused on the impairment of goodwill and PP&E allocated to the Carpets CGU, due to the magnitude of these balances and judgement involved in assessing their recoverability.

Our testing of impairment of goodwill and PP&E included the following procedures:

- Evaluated management's identification of CGU's and the corresponding allocation of goodwill and PP&E.
- Evaluated the methodologies, data and assumptions used in the discounted cash flow model and in doing this, we involved our valuation specialists.
- Challenged management's cash flow assumptions, including projected sales volumes, sales margin, wool price and foreign exchange rates against historical performance and forecast market information.
- Performed sensitivity analyses on the key assumptions used in the impairment model.
- Evaluated disclosure of impairment and related key assumptions in the financial statements of the Group.

We did not identify material exceptions from procedures performed, and found the judgements and assumptions used in the assessment of impairment of non-current assets to be balanced.

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## Independent Auditor's Report (continued)

### Impairment of equity-accounted investees

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Refer to Note 8a to the Financial Statements.

The Group holds a 27.5% investment in Cavalier Wool Holdings Limited ('CWH'), a national wool scouring operation.

Continued uncertainty around the industry's future market structure and market conditions indicate a risk of impairment, and the Group has used a DCF value-in-use model to determine the recoverable amount of the Group's equity-accounted investment in CWH as at 30 June 2018. In performing this assessment, the Group has made assumptions around the expected future structure of the industry, projected processing volumes, future scouring tariff rates and lanolin prices. Additionally, a terminal growth rate and discount rate were applied reflecting an assessment of the time value of money and the risks specific to the business.

We focused on the impairment of CWH due to the magnitude of the Group's investment, and the judgement involved in assessing its recoverability.

Our testing of the valuation of the Group's investment in CWH included the following procedures:

- Evaluated the impairment testing performed by the Group, assessing methodologies, data and assumptions used in the discounted cash flow model. We involved our valuation specialists in this evaluation process.
- Challenged management's cash flow assumptions in the impairment model, including projected processing volumes, scouring tariff rates and lanolin prices against historical actuals and forecast market information.
- Performed sensitivity analyses on the key assumptions used in the impairment model.

We did not identify material exceptions from procedures performed, and found the judgements and assumptions used in the assessment of impairment of the Group's investment in CWH to be balanced.

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### Valuation of inventory

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Refer to Note 6c to the financial statements.

The Group has significant inventory balances consisting of both raw materials and finished goods relating primarily to the production of carpets. The inventory is valued at the lower of cost and net realisable value. Assessing the net realisable value of inventory is complex and requires judgement in regard to the identification and categorisation of inventory as obsolete, slow moving and at risk of being sold below cost. Estimates are then involved in determining the amount of provision required against the cost of such inventory items. Consequently, we focused on the valuation of inventory as part of our audit.

We evaluated the valuation of inventory by performing the following audit procedures:

- Observed the condition of inventory as part of our physical inventory count procedures.
- Assessed the Group's methodology for identifying slow moving and obsolete inventories, taking into consideration the nature of the inventory and the Group's inventory rationalisation plans.
- Obtained management's calculation of net realisable value for slow moving and obsolete inventories and compared it to historical sales and margin reports. We also assessed and challenged key assumptions for reasonableness and corroborated with explanations provided by sales and inventory managers.
- Reviewed and tested underlying sales and inventory cost reports.

We did not identify material exceptions from procedures performed, and found the judgements and assumptions to be balanced and consistent with our understanding of the nature and intended use of the inventory.

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## OTHER INFORMATION

The Directors, on behalf of the Group, are responsible for the other information included in the entity's Annual Financial Statements and Annual Report. Other information includes Trend Statement and Disclosure of non-GAAP Financial Information and the other information included in the Annual Report. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have received the Trend Statement and Disclosure of non-GAAP Financial Information and have nothing to report in regards to it. The Annual Report is expected to be made available to us after the date of this Independent Auditor's Report and we will report the matters identified, if any, to the Directors.

## Independent Auditor's Report (continued)

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### USE OF THIS INDEPENDENT AUDITOR'S REPORT

This independent Auditor's Report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the independent Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders as a body for our audit work, this independent Auditor's Report, or any of the opinions we have formed

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### RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors, on behalf of the Company, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

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### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objective is:

- to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/>

This description forms part of our independent Auditor's Report.

The engagement partner on the audit resulting in this independent Auditor's Report is Aaron Woolsey.

For and on behalf of



KPMG  
Auckland  
21 August 2018

## Income Statement

For the year ended 30 June 2018

	Note	2018 \$000	2017 \$000
Revenue	3c	148,120	156,120
Cost of sales		(111,917)	(126,243)
<b>Gross profit</b>		<b>36,203</b>	<b>29,877</b>
Other income and gains	3d	77	21
Distribution expenses		(23,016)	(24,656)
Administration expenses	3e	(6,737)	(5,921)
Restructuring costs		189	(6,309)
Impairment of fixed assets	5a	(90)	-
Reversal of impairment of fixed assets	5a	137	1,505
<b>Results from operating activities</b>		<b>6,763</b>	<b>(5,483)</b>
Net finance costs	3g	(2,798)	(2,936)
Share of profit of equity-accounted investees (net of income tax)	8a	1,291	59
Gain on merger and dilution of equity-accounted investee		-	3,929
<b>Profit/(Loss) before income tax</b>		<b>5,256</b>	<b>(4,431)</b>
Income tax (expense)/benefit	3h	(1,175)	2,307
<b>Profit/(Loss) after tax for the period</b>		<b>\$4,081</b>	<b>\$(2,124)</b>
<b>Basic and diluted earnings per share (cents)</b>	3b	<b>5.9</b>	<b>(3.1)</b>

This statement is to be read in conjunction with the notes on pages 34 to 71.

## Statement of Comprehensive Income

For the year ended 30 June 2018

	Note	2018 \$000	2017 \$000
<b>Profit/(Loss) after tax for the period</b>		<b>4,081</b>	<b>(2,124)</b>
<b>Other comprehensive income that may be reclassified subsequently to profit or loss</b>			
Effective portion of changes in fair value of cash flow hedges		785	799
Net change in fair value of cash flow hedges transferred to profit or loss		(300)	104
Income tax on changes in fair value of cash flow hedges	3h	(136)	(253)
Share of fair value of cash flow hedges (net of tax) of equity-accounted investee	8a	(97)	(3)
Foreign currency translation differences for foreign operations		(1)	6
		<b>251</b>	<b>653</b>
<b>Other comprehensive income not reclassified subsequently to profit or loss</b>		<b>-</b>	<b>-</b>
<b>Other comprehensive income for the period, net of income tax</b>		<b>251</b>	<b>653</b>
<b>Total comprehensive income for the period</b>		<b>\$4,332</b>	<b>\$(1,471)</b>

This statement is to be read in conjunction with the notes on pages 34 to 71.

## Statement of Changes in Equity

For the year ended 30 June 2018

	Note	Share Capital \$000	Cash Flow Hedging Reserve \$000	Foreign Currency Translation Reserve \$000	Retained Earnings \$000	Total Equity \$000
<b>Total equity at 1 July 2017</b>		\$21,846	\$(322)	\$(1,419)	\$47,785	\$67,890
<b>Total comprehensive income for the period</b>						
<b>Profit after tax</b>		-	-	-	4,081	4,081
<b>Other comprehensive income that may be reclassified subsequently to profit or loss</b>						
Changes in fair value of cash flow hedges (net of tax)		-	349	-	-	349
Share of fair value of cash flow hedges (net of tax) of equity-accounted investee	8a	-	(97)	-	-	(97)
Foreign currency translation differences for foreign operations		-	-	(1)	-	(1)
		-	<b>252</b>	<b>(1)</b>	-	<b>251</b>
<b>Other comprehensive income not reclassified subsequently to profit or loss</b>		-	-	-	-	-
<b>Total other comprehensive income</b>		-	<b>252</b>	<b>(1)</b>	-	<b>251</b>
<b>Total comprehensive income for the period</b>		-	<b>252</b>	<b>(1)</b>	<b>4,081</b>	<b>4,332</b>
<b>Transactions with owners, recorded directly in equity</b>		-	-	-	-	-
<b>Total equity at 30 June 2018</b>		<b>\$21,846</b>	<b>\$(70)</b>	<b>\$(1,420)</b>	<b>\$51,866</b>	<b>\$72,222</b>

This statement is to be read in conjunction with the notes on pages 34 to 71.

## Statement of Changes in Equity (continued)

For the year ended 30 June 2018

	Note	Share Capital \$000	Cash Flow Hedging Reserve \$000	Foreign Currency Translation Reserve \$000	Retained Earnings \$000	Total Equity \$000
<b>Total equity at 1 July 2016</b>		\$21,846	\$(969)	\$(1,425)	\$49,909	\$69,361
<b>Total comprehensive income for the period</b>						
<b>Loss after tax</b>		-	-	-	(2,124)	(2,124)
<b>Other comprehensive income that may be reclassified subsequently to profit or loss</b>						
Changes in fair value of cash flow hedges (net of tax)		-	650	-	-	650
Share of fair value of cash flow hedges (net of tax) of equity-accounted investee	8a	-	(3)	-	-	(3)
Foreign currency translation differences for foreign operations		-	-	6	-	6
		-	<b>647</b>	<b>6</b>	-	<b>653</b>
<b>Other comprehensive income not reclassified subsequently to profit or loss</b>		-	-	-	-	-
<b>Total other comprehensive income</b>		-	<b>647</b>	<b>6</b>	-	<b>653</b>
<b>Total comprehensive income for the period</b>		-	<b>647</b>	<b>6</b>	<b>(2,124)</b>	<b>(1,471)</b>
<b>Transactions with owners, recorded directly in equity</b>						
		-	-	-	-	-
<b>Total equity at 30 June 2017</b>		<b>\$21,846</b>	<b>\$(322)</b>	<b>\$(1,419)</b>	<b>\$47,785</b>	<b>\$67,890</b>

This statement is to be read in conjunction with the notes on pages 34 to 71.



## Statement of Financial Position

As at 30 June 2018

	Note	2018 \$000	2017 \$000
<b>ASSETS</b>			
Property, plant and equipment	5a	35,142	37,123
Goodwill	5c	2,362	2,362
Investment in equity-accounted investees	8a	24,544	23,490
Deferred tax asset	3h	4,971	5,532
<b>Total non-current assets</b>		<b>67,019</b>	<b>68,507</b>
Cash and cash equivalents	6a	2,111	1,255
Trade receivables, other receivables and prepayments	6b	15,582	17,261
Inventories	6c	47,321	50,635
Derivative financial instruments	7	971	898
Income tax receivable		-	301
<b>Total current assets</b>		<b>65,985</b>	<b>70,350</b>
<b>Total assets</b>		<b>\$133,004</b>	<b>\$138,857</b>
<b>EQUITY</b>			
Share capital	4b	21,846	21,846
Cash flow hedging reserve	4b	(70)	(322)
Foreign currency translation reserve	4b	(1,420)	(1,419)
Retained earnings		51,866	47,785
<b>Total equity</b>		<b>72,222</b>	<b>67,890</b>
<b>LIABILITIES</b>			
Loans and borrowings	4c	27,500	35,000
Employee benefits	8c	911	1,097
Deferred income		-	18
Provisions	8b	1,118	2,613
<b>Total non-current liabilities</b>		<b>29,529</b>	<b>38,728</b>
Loans and borrowings	4c	4,000	6,500
Trade creditors and accruals	6d	19,490	18,855
Provisions	8b	2,214	1,693
Employee entitlements		4,076	3,832
Deferred income		47	67
Derivative financial instruments	7	593	1,292
Income tax payable		833	-
<b>Total current liabilities</b>		<b>31,253</b>	<b>32,239</b>
<b>Total liabilities</b>		<b>60,782</b>	<b>70,967</b>
<b>Total equity and liabilities</b>		<b>\$133,004</b>	<b>\$138,857</b>

This statement is to be read in conjunction with the notes on pages 34 to 71.

## Statement of Cash Flows

For the year ended 30 June 2018

	Note	2018 \$000	2017 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash receipts from customers		149,448	159,855
Cash paid to suppliers and employees		(135,587)	(159,518)
		<b>13,861</b>	<b>337</b>
Dividends received		1	1
Other receipts		4	4
GST (paid)/refunded		665	(73)
Interest paid		(2,773)	(2,912)
Income tax (paid)/refunded		385	(2,730)
<b>Net cash flow from operating activities</b>		<b>12,143</b>	<b>(5,373)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of property, plant and equipment		161	90
Acquisition of property, plant and equipment	5a	(1,622)	(2,123)
Dividends received from equity-accounted investee	8a	140	3,670
<b>Net cash flow from investing activities</b>		<b>(1,321)</b>	<b>1,637</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Movements in bank borrowings	4c	(10,000)	3,800
<b>Net cash flow from financing activities</b>		<b>(10,000)</b>	<b>3,800</b>
<b>Net increase in cash and cash equivalents</b>		<b>822</b>	<b>64</b>
Cash and cash equivalents at beginning of the period		1,255	1,200
Effect of exchange rate changes on cash		34	(9)
<b>Cash and cash equivalents at end of the period</b>		<b>\$2,111</b>	<b>\$1,255</b>

This statement is to be read in conjunction with the notes on pages 34 to 71.

## Statement of Cash Flows (continued)

For the year ended 30 June 2018

### RECONCILIATION OF PROFIT/LOSS WITH NET CASH FLOW FROM OPERATING ACTIVITIES

	2018 \$000	2017 \$000
<b>Profit/(Loss) after tax for the period</b>	<b>4,081</b>	<b>(2,124)</b>
Add/(Deduct) non-cash items:		
Depreciation	3,561	3,251
Impairment of fixed assets	90	-
Reversal of impairment of fixed assets	(137)	(1,505)
Share of profit of equity-accounted investees	(1,291)	(3,988)
Deferred tax benefit	425	(2,289)
Employee benefits	58	(140)
Deferred income	(38)	(66)
Provisions	(974)	(2,894)
Net gain on sale of property, plant and equipment	(72)	(16)
Net (gain)/loss on foreign currency balance	(34)	12
Changes in working capital items:		
Trade and other receivables	1,679	4,466
Inventories	3,314	7,099
Income tax payable/receivable	1,134	(2,747)
Trade creditors and accruals	635	(4,465)
Derivative financial instruments	(288)	33
<b>Net cash flow from operating activities</b>	<b>\$12,143</b>	<b>\$(5,373)</b>

This statement is to be read in conjunction with the notes on pages 34 to 71.

# Notes to the Financial Statements

For the year ended 30 June 2018

## 1. COMPANY INFORMATION

Cavalier Corporation Limited (“Cavalier” or “Company”) is a limited liability company that is domiciled and incorporated in New Zealand.

The financial statements presented are for Cavalier and its subsidiaries (“Group”) and the Group’s investment in equity-accounted investees as at, and for the year ended, 30 June 2018.

The Company is registered under the Companies Act 1993 and is an FMC reporting entity for the purposes of the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013. The financial statements have been prepared in accordance with these Acts.

The principal activities of the Group comprise wool acquisition, and carpet manufacturing and sales.

All Group subsidiaries are wholly-owned.

The Group also has a 27.5% interest in commission woollscourer, Cavalier Wool Holdings Limited, and a 50% interest in property-owning entity, CWS Assets Limited.

## 2. GENERAL INFORMATION RELATING TO PREPARATION OF FINANCIAL STATEMENTS

### Statement of compliance

The financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), other applicable New Zealand accounting standards and authoritative notices as appropriate for Tier 1 For-Profit entities. The financial statements also comply with International Financial Reporting Standards (IFRS).

### Basis of preparation

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) as appropriate for Tier 1 For-Profit entities.

They have been prepared on the historical cost basis, except for derivative financial instruments which are measured at fair value as disclosed at note 7 (Risks and financial instruments) to the financial statements.

The financial statements are presented in New Zealand dollars (\$), which is the Company’s functional currency. All entities in the Group have New Zealand dollars as its functional currency. Unless otherwise indicated, all financial information presented in New Zealand dollars has been rounded to the nearest thousand.

The income statement and statements of comprehensive income, changes in equity and cash flows are stated exclusive of GST. All items in the statement of financial position are stated exclusive of GST, with the exception of trade receivables and trade payables, which include GST invoiced.

### Going concern

The Group prepares its financial statements on a going concern basis and expects to be able to realise its assets and meet its financial obligations in the normal course of business.

The Group’s ability to comply with the Bank’s financial covenants, as discussed at note 4c (Loans and borrowings) to the financial statements, and generate sufficient cash flows from operations to satisfy its funding and other financial obligations for a period of at least 12 months following balance date is important to determining the appropriateness of the going concern basis of accounting.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 2. GENERAL INFORMATION RELATING TO PREPARATION OF FINANCIAL STATEMENTS (continued)

#### Going concern (continued)

In this regard, reliance is placed on the forecasts of the Group's financial performance, cash flows and financial position that are prepared by management as part of its monitoring of the Group's operations and the Group's ability to comply with, among other things, the Bank's financial covenants and debt repayment obligations over the term of its Bank facility.

In preparing these financial forecasts, assumptions are made in respect of:

- (i) future economic and market conditions, competitor activity and, as a consequence, sales volumes and margins;
- (ii) the performance of the Group's manufacturing plants;
- (iii) its inventory rationalisation and debt reduction programmes;
- (iv) the NZD:AUD and NZD:USD exchange rates, after taking into account hedged positions;
- (v) wool prices and other raw material costs; and
- (vi) other cost-reduction initiatives.

The Board of Directors ("Board") notes that these financial forecasts are sensitive to changes in some of the assumptions underlying the forecasts – including sales volumes and margins, manufacturing performances and a number of external factors over which the Group has limited control over, such as exchange rates and raw material input costs.

However, the Board notes the progress that has been made since August 2017 when it authorised the issue of the Group's annual financial statements for the year ended 30 June 2017.

For the year ended 30 June 2018, the Group generated a profit after tax of \$4.1 million and positive cash flow from operations of \$12.1 million. Additionally, the Group has reduced inventory and net bank loans and borrowings by \$3.3 million and \$10.8 million respectively. As a consequence, the Group is now in a stronger financial position.

The Board also notes the actions that have been taken to manage the Group's exposure to foreign currency movements and wool price fluctuations by using hedging instruments and entering into wool contracts.

A number of other initiatives and disciplines have also been put in place to further reduce costs, inventory and bank loans and borrowings, thereby further strengthening the Group's financial position and providing it with additional protection against erosion in forecast earnings and cash flows should economic and market conditions not turn out as expected.

The Board considers the Group to be a going concern and believes that the Group will generate sufficient operating cash flows to be able to meet its contractual obligations as these become due.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 2. GENERAL INFORMATION RELATING TO PREPARATION OF FINANCIAL STATEMENTS (continued)

#### Significant accounting policies, estimates and judgements

There have been no changes to accounting policies.

The preparation of financial statements requires management to make judgements, estimates and assumptions (based on historical experience and other factors management believes to be reasonable) that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Accounting policies are identified throughout the notes to the financial statements.

Information about judgements, estimations and assumptions that have a significant effect on the amounts recognised in the financial statements are disclosed in the following notes:

- Note 2 – going concern
- Note 3h – measurement and recoverability of tax losses
- Note 5a – recoverability of property, plant and equipment
- Note 5c – recoverability of goodwill
- Note 6c – inventory provisioning
- Note 8a – recoverability of equity-accounted investees
- Note 8b – measurement of provisions
- Note 8c – measurement of employee benefits

Accounting policies and judgements, estimations and assumptions are identified using the following coloured boxes:

*Accounting policies*

*Judgements, estimations and assumptions*

#### Basis of consolidation

The financial statements incorporate the assets and liabilities of all subsidiaries of the Group as at 30 June 2018 and the results of all subsidiaries for the year then ended. Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the financial statements. Unrealised losses are also eliminated unless the underlying intra-group transaction provides evidence that the asset transferred is impaired.

Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

#### New and amended accounting standards adopted

No new accounting standards and amendments to existing standards were adopted by the Group during the year.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 3. FINANCIAL PERFORMANCE

This section deals with the financial performance of the Group and addresses, among other things, the financial performance of the Group's reportable segments and the key areas that impact on the Group's profitability, including operating revenue, other income, gains/losses on sale of property, plant and equipment, expenses and taxation.

#### 3a. Segment performance

##### Reportable segments

The Group's reportable and operating segments are:

- carpet manufacturing and sales; and
- wool acquisition.

An operating segment is a component of the Group:

- that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components;
- whose operating results are regularly reviewed by the Group's chief operating decision maker – in this case, the Chief Executive Officer – to make decisions about the resources to be allocated to the segment and to assess its performance; and
- for which discrete financial information is available.

##### Inter-segment transactions

All inter-segmental transactions included in revenue and operating expenses for each segment are on an arm's-length basis. Inter-segmental sales during the period and intercompany profits on stocks at balance date are eliminated on consolidation.

##### Geographical areas

In presenting information on the basis of geographical areas, revenue is based on the geographical location of customers and non-current assets are based on the geographical location of those assets.

	2018 \$000	2017 \$000
<b>Revenue</b>		
New Zealand	84,482	88,759
Australia	57,878	60,224
Rest of the world	5,760	7,137
	<b>\$148,120</b>	<b>\$156,120</b>

	As at 30 June 2018 \$000	As at 30 June 2017 \$000
<b>Non-current assets</b>		
New Zealand	66,522	65,946
Australia	497	2,561
	<b>\$67,019</b>	<b>\$68,507</b>

##### Major customers

None of the Group's external customers contributed revenues in excess of 10% of the Group's total revenues.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 3. FINANCIAL PERFORMANCE (continued)

#### 3a. Segment performance (continued)

	Carpets		Wool Acquisition		Total	
	2018 \$000	2017 \$000	2018 \$000	2017 \$000	2018 \$000	2017 \$000
External revenue	123,724	131,600	24,396	24,520	148,120	156,120
Inter-segment revenue	-	-	3,069	4,501	3,069	4,501
<b>Total revenue</b>	<b>\$123,724</b>	<b>\$131,600</b>	<b>\$27,465</b>	<b>\$29,021</b>	<b>151,189</b>	<b>160,621</b>
Elimination of inter-segment revenue					(3,069)	(4,501)
<b>Consolidated revenue</b>					<b>\$148,120</b>	<b>\$156,120</b>
Segment result before depreciation and restructuring related expenses and gains	10,318	3,476	1,411	535	11,729	4,011
Depreciation	(3,445)	(3,146)	(116)	(105)	(3,561)	(3,251)
<b>Segment result before restructuring</b>	<b>6,873</b>	<b>330</b>	<b>1,295</b>	<b>430</b>	<b>8,168</b>	<b>760</b>
Restructuring costs	189	(6,309)	-	-	189	(6,309)
Impairment of fixed assets	(90)	-	-	-	(90)	-
Reversal of impairment of fixed assets	137	1,505	-	-	137	1,505
<b>Segment result after restructuring</b>	<b>7,109</b>	<b>(4,474)</b>	<b>1,295</b>	<b>430</b>	<b>8,404</b>	<b>(4,044)</b>
Elimination of inter-segment profits					(66)	61
Unallocated corporate costs					(1,575)	(1,500)
<b>Results from operating activities</b>					<b>6,763</b>	<b>(5,483)</b>
Net finance costs					(2,798)	(2,936)
Share of profit of equity-accounted investees (net of income tax)					1,291	59
Gain on merger and dilution of equity-accounted investee					-	3,929
<b>Profit/(Loss) before income tax</b>					<b>5,256</b>	<b>(4,431)</b>
Income tax (expense)/benefit					(1,175)	2,307
<b>Profit/(Loss) after tax for the period</b>					<b>\$4,081</b>	<b>\$(2,124)</b>



## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 3. FINANCIAL PERFORMANCE (continued)

#### 3a. Segment performance (continued)

	Carpets		Wool Acquisition		Total	
	2018 \$000	2017 \$000	2018 \$000	2017 \$000	2018 \$000	2017 \$000
Reportable segment assets	104,665	113,134	3,795	2,233	108,460	115,367
Investment in equity-accounted investees					24,544	23,490
<b>Total assets</b>					<b>\$133,004</b>	<b>\$138,857</b>
<b>Capital expenditure</b>	1,392	1,970	230	153	<b>\$1,622</b>	<b>\$2,123</b>
Reportable segment liabilities	26,122	28,149	3,160	1,318	29,282	29,467
Unallocated liabilities					31,500	41,500
<b>Total liabilities</b>					<b>\$60,782</b>	<b>\$70,967</b>
<b>Employee numbers</b>						
Operations	441	455	27	24	468	479
Unallocated					5	4
<b>Total employee numbers</b>					<b>473</b>	<b>483</b>

#### 3b. Earnings per share

##### Basic and diluted earnings per share (EPS)

	2018	2017
Profit/(Loss) after tax attributable to shareholders of the Company (\$000)	4,081	(2,124)
Weighted average number of ordinary shares outstanding	68,679,098	68,679,098
<b>Basic and diluted EPS (cents)</b>	<b>5.9</b>	<b>(3.1)</b>

## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 3. FINANCIAL PERFORMANCE (continued)

#### 3c. Revenue

	2018 \$000	2017 \$000
Sales of goods		
Carpet	121,682	129,001
Wool	24,396	24,520
Yarn	1,933	2,127
	<b>148,011</b>	<b>155,648</b>
Provision of installation services	109	472
<b>Total revenue</b>	<b>\$148,120</b>	<b>\$156,120</b>

#### Sale of goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

#### Provision of services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is determined by reference to the physical quantities of materials processed.

#### 3d. Other income and gains

	2018 \$000	2017 \$000
Rentals received	4	4
Dividends received	1	1
Net gain on sale of property, plant and equipment	72	16
<b>Total other income and gains</b>	<b>\$77</b>	<b>\$21</b>

#### 3e. Administration expenses

The following items of expenditure are included in administration expenses:

	2018 \$000	2017 \$000
<b>Donations</b>	<b>\$25</b>	<b>\$3</b>
<b>Fees paid and payable to KPMG for:</b>		
Audit and review of financial statements	179	285
Tax services	23	17
Other services	5	5
<b>Total fees paid and payable to KPMG</b>	<b>\$207</b>	<b>\$307</b>

The fees for audit and review of financial statements include the annual audit of the financial statements and, where relevant, review of the interim financial statements.

Tax services were in respect of transfer pricing and tax assignments and other services were in respect of scrutineering work at the Annual Meeting of shareholders.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 3. FINANCIAL PERFORMANCE (continued)

#### 3f. Personnel expenses

	2018 \$000	2017 \$000
Directors' fees	345	331
Wages, salaries, bonuses and holiday pay	33,227	37,819
Employee termination benefits	322	-
Employee benefits	2,901	3,009
Increase/(Decrease) in liability for retiring allowances and long service leave	(101)	(99)
<b>Total personnel expenses</b>	<b>\$36,694</b>	<b>\$41,060</b>

Personnel costs are included in cost of sales, distribution expenses and administration expenses in the income statement (except for employee termination benefits relating to restructuring of the Group's operations which are classified under restructuring costs).

#### 3g. Net finance costs

	2018 \$000	2017 \$000
Interest income	36	28
Interest expense	(2,834)	(2,964)
<b>Net finance costs</b>	<b>\$(2,798)</b>	<b>\$(2,936)</b>

*Net finance costs include interest expense on borrowings and interest income on funds invested.  
All interest expense and income are recognised in profit or loss using the effective interest method.*

#### 3h. Income tax

	2018 \$000	2017 \$000
<b>Income tax expense/(benefit) in the income statement</b>		
<b>Current tax expense/(benefit)</b>		
Current period	491	372
Adjustment for prior periods	259	(390)
	<b>750</b>	<b>(18)</b>
<b>Deferred tax expense/(benefit)</b>		
Origination and reversal of temporary differences	681	(2,679)
Adjustment for prior periods	(256)	390
	<b>425</b>	<b>(2,289)</b>
<b>Income tax expense/(benefit)</b>	<b>\$1,175</b>	<b>\$(2,307)</b>
<b>Reconciliation of effective tax rate</b>		
Profit/(Loss) after tax for the period	4,081	(2,124)
Income tax expense/(benefit)	1,175	(2,307)
<b>Profit/(Loss) excluding income tax</b>	<b>\$5,256</b>	<b>\$(4,431)</b>

## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 3. FINANCIAL PERFORMANCE (continued)

#### 3h. Income tax (continued)

	2018 \$000	2017 \$000
Income tax using the Company's domestic tax rate of 28% (2017: 28%)	1,472	(1,241)
Share of profit after tax of equity-accounted investees	(361)	(17)
Gain on merger and dilution of equity-accounted investee	-	(1,100)
Non-deductible expenses	43	26
Effect of tax rate difference in foreign jurisdiction	29	26
Underprovided in prior periods	3	-
Other	(11)	(1)
<b>Income tax expense/(benefit)</b>	<b>\$1,175</b>	<b>\$(2,307)</b>
<b>Income tax recognised directly in equity</b>		
Derivative financial instruments	136	253
<b>Income tax on income and expense recognised directly in equity</b>	<b>\$136</b>	<b>\$253</b>
<b>Imputation credits</b>		
<b>Imputation credits available to shareholders of the Company</b>	<b>\$8,748</b>	<b>\$9,391</b>

#### Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2018 \$000	2017 \$000	2018 \$000	2017 \$000	2018 \$000	2017 \$000
Property, plant and equipment	-	-	(2,744)	(3,004)	(2,744)	(3,004)
Derivatives	-	-	-	-	-	-
Inventories	589	778	-	-	589	778
Employee benefits	1,232	1,224	-	-	1,232	1,224
Provisions	2,092	2,042	-	-	2,092	2,042
Tax loss carry-forwards	3,802	4,492	-	-	3,802	4,492
<b>Net tax assets/(liabilities)</b>	<b>\$7,715</b>	<b>\$8,536</b>	<b>\$(2,744)</b>	<b>\$(3,004)</b>	<b>\$4,971</b>	<b>\$5,532</b>

Deferred tax assets have not been recognised in respect of temporary differences arising from tax losses totalling \$24,149,000 (2017: \$24,178,000) relating to an Australian subsidiary that currently does not have trading activity. It is not probable that future taxable profit will be available against which the Group can use the benefits therefrom.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 3. FINANCIAL PERFORMANCE (continued)

#### 3h. Income tax (continued)

##### Deferred tax assets and liabilities (continued)

Movement in temporary differences during the year:

	Balance 30 June 2017 \$000	Recognised in profit or loss \$000	Recognised in equity \$000	Balance 30 June 2018 \$000
Property, plant and equipment	(3,004)	260	-	(2,744)
Derivatives	-	136	(136)	-
Inventories	778	(189)	-	589
Employee benefits	1,224	8	-	1,232
Provisions	2,042	50	-	2,092
Tax loss carry-forwards	4,492	(690)	-	3,802
<b>Total</b>	<b>\$5,532</b>	<b>\$(425)</b>	<b>\$(136)</b>	<b>\$4,971</b>

	Balance 30 June 2016 \$000	Recognised in profit or loss \$000	Recognised in equity \$000	Balance 30 June 2017 \$000
Property, plant and equipment	(2,323)	(681)	-	(3,004)
Derivatives	(2)	255	(253)	-
Inventories	1,148	(370)	-	778
Employee benefits	1,431	(207)	-	1,224
Provisions	3,242	(1,200)	-	2,042
Tax loss carry-forwards	-	4,492	-	4,492
<b>Total</b>	<b>\$3,496</b>	<b>\$2,289</b>	<b>\$(253)</b>	<b>\$5,532</b>

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes and is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for individual subsidiaries in the Group. This is reviewed at each balance date and adjusted to the extent that it is no longer probable that sufficient taxable profits will be available in the future to utilise the deferred tax asset.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 4. FUNDING

This section looks at the Group's two key sources of funding, how it manages its funding and other related matters.

#### 4a. Capital management

The Group's capital includes share capital, reserves and retained earnings.

The Group's capital management policy is aimed at maintaining a strong capital base so as to maintain investor, creditor and market confidence in the Group and to enable it to continue to fund the ongoing needs of the business and to sustain its future development.

The impact of the level of capital on shareholders' return is also recognised, as is the return to shareholders in the form of dividends paid and growth in share price, and the Group works to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital base.

The Group is not subject to any externally imposed capital requirements, except that one of the covenants with its bank requires total equity, after deducting intangibles, to be maintained at a pre-determined percentage of total tangible assets. There is satisfactory headroom in this covenant at balance date.

The allocation of capital between the Group's specific business segment operations and activities is, to a large extent, driven by the opportunities that exist within each of these segments and the optimisation of the return achieved on the capital allocated. The process of allocating capital to specific business segment operations and activities is determined by the Chief Executive Officer in consultation with the Board and is therefore undertaken independently of those responsible for the operation.

The Group's policies in respect of capital management and allocation are reviewed regularly by the Board.

There have been no material changes in the Group's management of capital during the period.

Consistent with best practice, the Group monitors capital on the basis of the leverage. Leverage is calculated as net debt divided by total capital employed. Net debt is determined as total loans and borrowings (including both non-current and current as shown in the consolidated statement of financial position) plus bank overdraft less cash and cash equivalents. Total capital employed is calculated as equity as shown in the consolidated statement of financial position plus net debt financing assets in operation.

The Group's leverage at balance date was as follows:

	2018 \$000	2017 \$000
Total loans and borrowings, including current portion	31,500	41,500
Less cash and cash equivalents	(2,111)	(1,255)
<b>Net debt</b>	<b>29,389</b>	<b>40,245</b>
Total equity	72,222	67,890
<b>Total capital employed</b>	<b>\$101,611</b>	<b>\$108,135</b>
<b>Leverage</b>	<b>28.9%</b>	<b>37.2%</b>

## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 4. FUNDING (continued)

#### 4b. Share capital, dividends and reserves

##### Share capital

	2018	2017
<b>Number of ordinary shares issued</b>	<b>68,679,098</b>	<b>68,679,098</b>

All issued shares are fully paid up and have no par value.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

##### Dividends

No dividends were paid during the year (2017: Nil).

The Board has not declared a final dividend in respect of the current year ended 30 June 2018 (2017: Nil).

##### Cash flow hedging reserve

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investing activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value and transaction costs are expensed immediately. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

Where derivatives qualify for hedge accounting, changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income remains there until the forecast transaction occurs at which time the gain or loss is transferred to profit or loss. When the hedge item is a non-financial asset, the amount recognised in the cash flow hedging reserve is transferred to the carrying amount of the asset when it is recognised. In other cases, the amount recognised in the cash flow hedging reserve is transferred to profit or loss in the same period that the hedged item affects profit or loss.

The cash flow hedging reserve represents the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

##### Foreign currency translation reserve

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to New Zealand dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to New Zealand dollars at exchange rates at the dates of the transactions.

The foreign currency translation reserve comprises all exchange rate differences arising from the translation of the financial statements of foreign operations and the translation of liabilities designated as hedges against the Company's net investment in a foreign operation.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 4. FUNDING (continued)

#### 4c. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate risks, see note 7 (Risks and financial instruments) to the financial statements.

The Group's funding facilities are provided by Bank of New Zealand and National Australia Bank Limited (together, "the Bank").

The Group had total New Zealand dollar-denominated bank funding facilities of \$36,400,000 at balance date, with \$31,500,000 utilised at that date.

The Group also had overdraft facilities totalling \$1,619,100 at balance date. These facilities are repayable on demand and none of these were utilised at that date.

During the year, the Group had financial covenants with the Bank that required the Group to meet, amongst other matters, certain equity ratio, EBITDA, revenue and inventory targets. The Group complied with these financial covenants throughout the year ended 30 June 2018.

Details of the Group's loans and borrowings at 30 June are as follows:

	Nominal interest rate 2018 %	Face value 2018 \$0000	Carrying amount 2018 \$000	Nominal interest rate 2017 %	Face value 2017 \$000	Carrying amount 2017 \$000
Non-current		27,500	27,500		35,000	35,000
Current		4,000	4,000		6,500	6,500
<b>Total secured bank loans</b>	<b>7.3</b>	<b>\$31,500</b>	<b>\$31,500</b>	<b>6.0</b>	<b>\$41,500</b>	<b>\$41,500</b>

The Group had no other borrowings at balance date (2017: Nil).

Certain companies in the Group have granted in favour of Bank of New Zealand, as security agent for the Bank, a first-ranking composite general security deed and cross guarantee securing all obligations of the Group to the Bank, including obligations for the payment and repayment of moneys due, owing or payable by the Group to the Bank. The property-owning companies in the Group have also granted in favour of Bank of New Zealand first-ranking mortgages in respect of land and buildings as security for all obligations of the Group to the Bank, including obligations for the payment and repayment of moneys due, owing or payable by the Group to the Bank (see note 5a (Property, plant and equipment) to the financial statements).

The Group extended its funding facilities with the Bank to 1 January 2020 prior to balance date. The extended funding arrangement provides for a staged reduction of the \$36,400,000 total funding facilities (excluding overdraft facilities), with the first reduction taking place on 1 January 2019 and each quarter thereafter up until 1 July 2019. This staged reduction is consistent with the forecast reduction in bank debt under the Group's debt reduction programme, while continuing to provide the Group with appropriate headroom within its funding facilities.

In extending the funding facilities, the Group also renegotiated its financial covenants with the Bank, with the equity ratio, EBITDA, revenue and inventory targets reset to reflect the Group's latest financial forecasts.

As explained at note 2 (under Going concern) to the financial statements, the Board considers the Group to be a going concern and believes that it will be able to meet its contractual obligations under its funding facilities.



## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 5. ASSETS EMPLOYED

This section covers non-current assets, being property, plant and equipment and goodwill, that the Group employs in the production and sale of carpet, and the acquisition and sale of wool, to generate revenues and profits.

#### 5a. Property, plant and equipment

	Land and buildings \$000	Plant and equipment \$000	Other assets \$000	Under construction \$000	Total \$000
<b>Cost or deemed cost</b>					
Balance at 1 July 2017	23,548	73,096	14,377	414	111,435
Additions	162	438	905	117	1,622
Disposals	-	(977)	(797)	(226)	(2,000)
Transfers	24	46	116	(186)	-
<b>Balance at 30 June 2018</b>	<b>\$23,734</b>	<b>\$72,603</b>	<b>\$14,601</b>	<b>\$119</b>	<b>\$111,057</b>
Balance at 1 July 2016	23,219	73,122	14,925	829	112,095
Additions	209	741	1,004	169	2,123
Disposals	-	(1,075)	(1,696)	(12)	(2,783)
Transfers	120	308	144	(572)	-
<b>Balance at 30 June 2017</b>	<b>\$23,548</b>	<b>\$73,096</b>	<b>\$14,377</b>	<b>\$414</b>	<b>\$111,435</b>
<b>Depreciation and impairment losses</b>					
Balance at 1 July 2017	2,175	59,803	12,108	226	74,312
Depreciation for the year	228	2,645	688	-	3,561
Impairment losses provided/(reversed)	-	(47)	-	-	(47)
Disposals	-	(957)	(728)	(226)	(1,911)
<b>Balance at 30 June 2018</b>	<b>\$2,403</b>	<b>\$61,444</b>	<b>\$12,068</b>	<b>-</b>	<b>\$75,915</b>
Balance at 1 July 2016	1,969	59,835	13,182	289	75,275
Depreciation for the year	206	2,438	607	-	3,251
Impairment losses reversed	-	(1,442)	-	(63)	(1,505)
Disposals	-	(1,028)	(1,681)	-	(2,709)
<b>Balance at 30 June 2017</b>	<b>\$2,175</b>	<b>\$59,803</b>	<b>\$12,108</b>	<b>\$226</b>	<b>\$74,312</b>
<b>Carrying amounts</b>					
<b>At 30 June 2018</b>	<b>\$21,331</b>	<b>\$11,159</b>	<b>\$2,533</b>	<b>\$119</b>	<b>\$35,142</b>
At 30 June 2017	\$21,373	\$13,293	\$2,269	\$188	\$37,123

Other assets comprise fixtures and fittings (including leasehold improvements and display stands), computer equipment, motor vehicles and office equipment.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 5. ASSETS EMPLOYED (continued)

#### 5a. Property, plant and equipment (continued)

##### Impairment loss

Impairment losses in respect of plant and equipment of \$90,000 were recognised during the year (2017: Nil). Prior year impairment losses relating to specific items of fixed assets of \$137,000 were reversed during the year (2017: \$1,505,000).

Due to identification of indicators of impairment – more particularly, the \$29,641,000 shortfall in the Group's market capitalisation when compared with the carrying value of its net asset – the Group conducted an impairment test of the carrying value of property, plant and equipment that is allocated to the carpet sales and manufacturing cash generating unit (CGU) as at 30 June 2018. The recoverable amount of these assets were tested for impairment by determining their value-in-use by discounting cash flow projections for the next five years, taking into consideration historic data and forecast economic conditions.

The recoverable amount of these assets was determined based on the following significant assumptions:

- Carpet sales volume to remain unchanged in 2018 and 2019 and to increase by 5% in 2020 and in 2021;
- Carpet sales prices to remain largely unchanged over the five year period;
- Wool price of \$4.00/kg clean in 2019 increasing to \$4.74/kg clean in 2020 and \$4.94/kg clean thereafter;
- NZD:AUD exchange rates ranging from 0.9240 to 0.8905 between 2019 and 2022 and 0.8968 thereafter;
- Post-tax discount rate of 11.1% (2017: 12.6%);
- Long term growth rate of 2% (2017: 2%).

Management believes that the key assumptions used and estimates made represent the most realistic assessment of the recoverable amount of property, plant and equipment.

Based on this assessment, the recoverable amount of these assets exceeds their carrying amount at the reporting date and management has concluded that no impairment is required to be recognised.

Given the headroom that existed between the recoverable and carrying amounts of property, plant and equipment, the recoverability of these assets is not considered to be particularly sensitive to changes in the underlying assumptions in the discounted cash flow model.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 5. ASSETS EMPLOYED (continued)

#### 5a. Property, plant and equipment (continued)

##### Security

At balance date, the Group's property, plant and equipment were subject to various registered charges in favour of the Group's bankers as security for the Group's banking facilities and arrangements (see note 4c (Loans and borrowings) to the financial statements).

##### Recognition and measurement

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the cost of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

##### Under construction

Items being constructed for future use are held as part of property, plant and equipment under construction. The carrying amounts of these represent the costs incurred at balance date and will be transferred to the appropriate classification of property, plant and equipment on completion. Initial cost includes the purchase consideration and those costs directly attributable in bringing the asset to the location and condition necessary for its intended use. These costs include site preparation costs, installation costs, borrowing costs, unrecovered operating costs incurred during planned commissioning and the costs of obtaining consents.

Costs cease to be capitalised when all the activities necessary to bring the asset to its location and condition for its intended use are complete.

##### Depreciation

Depreciation is recognised in the income statement over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The principal rates used for the current and comparative periods are as follows:

- buildings 1.0 – 2.5% straight line
- plant and equipment 6.7 – 10.0% straight line
- other assets
  - fixtures and fittings 10.0% straight line
  - computer equipment 20.0 – 25.0% straight line
  - motor vehicles and office equipment 20.0% diminishing value

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

#### 5b. Capital commitments

The Group had outstanding commitments for the purchase of plant and equipment of \$397,000 at balance date (2017: \$188,000).

## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 5. ASSETS EMPLOYED (continued)

#### 5c. Goodwill

Goodwill of \$2,362,000 (2017: \$2,362,000) which arose from the acquisition of Radford Yarn Technologies Limited has been allocated to the carpet sales and manufacturing cash generating unit (CGU).

Management assessed this CGU for impairment of goodwill as at 30 June 2018 as discussed at note 5a (Property, plant and equipment) to the financial statements.

Based on this assessment, management has concluded that no impairment is required to be recognised.

*The carrying amount of goodwill is tested annually for impairment. An impairment loss is recognised if the carrying amount of the cash-generating unit (being the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups) to which the goodwill is allocated exceeds its recoverable amount. Impairment loss of goodwill cannot be reversed in future periods.*

*The recoverable amount of a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the cash generating unit.*

*Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.*

### 6. WORKING CAPITAL

This section reviews the level of working capital the Group generates and utilises in its normal day-to-day operating activities. The Group's working capital includes short-term assets (cash and cash equivalents, trade receivables, other receivables and prepayments and inventories) and liabilities (trade creditors and accruals).

#### 6a. Cash and cash equivalents

Cash and cash equivalents at balance date comprise cash on hand and deposits held at call.

*Cash and cash equivalents comprise cash on hand, deposits held at call with financial institutions and bank overdrafts used for cash management purposes.*

## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 6. WORKING CAPITAL (continued)

#### 6b. Trade receivables, other receivables and prepayments

	2018 \$000	2017 \$000
Trade receivables due from trade customers	15,184	16,580
Other receivables	54	169
Prepayments	344	512
	<b>\$15,582</b>	<b>\$17,261</b>

The Group's exposure to credit risk in respect of trade receivables and other receivables is minimal as none of the Group's external customers contributed revenues in excess of 10% of the Group's total revenues and none of the Group's trade receivables and other receivables are significant individually.

Impairments losses on trade receivables and other receivables are assessed collectively and on a portfolio basis based on the number of days overdue after taking into account the historical loss experienced in portfolios with a similar number of days overdue.

Further management commentary on, and quantitative disclosure of, credit risk can be found in note 7 (Risks and financial instruments) to the financial statements.

*Trade receivables and other receivables are recognised initially at fair value and subsequently adjusted for impairment losses.*

#### 6c. Inventories

	2018 \$000	2017 \$000
Raw materials and consumables	17,896	19,648
Work in progress	1,664	2,403
Finished goods	27,761	28,584
	<b>\$47,321</b>	<b>\$50,635</b>
<b>Carrying amount of inventories subject to retention of title clauses</b>	<b>\$2,351</b>	<b>\$530</b>

In 2018, the net realisable value provision in respect of inventories decreased by \$766,000 (2017: decreased by \$1,790,000).

*Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.*

*Inventory provisions are recognised for oddments, obsolete, aged and discontinued inventories to arrive at their likely net realisable value. In recognising the provision for inventories, judgement is applied by considering a range of factors including inventory rationalisation plans, consumer demand and current trends, available distribution channels and historical sales and margin data for obsolete, aged and discontinued inventory.*

## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 6. WORKING CAPITAL (continued)

#### 6d. Trade creditors and accruals

	2018 \$000	2017 \$000
Trade payables due to external parties	17,671	16,583
Accrued expenses	1,819	2,272
	<b>\$19,490</b>	<b>\$18,855</b>

### 7. RISKS AND FINANCIAL INSTRUMENTS

This section identifies the risks faced by the Group, explains the impact of these risks on its financial position, performance and cash flows, outlines the Group's approach to financial risk management and highlights the financial instruments used to manage risks.

#### Management commentary

Exposure to credit, liquidity, foreign currency and interest rate risks arises in the normal course of the Group's businesses.

The Group enters into derivative financial instruments in the ordinary course of business to manage foreign currency and interest rate risks in accordance with the treasury policy approved by the Board. A financial risk management committee, composed of senior management and operating under the Board-approved treasury policy, ensures that procedures for derivative instrument utilisation, control and valuation, risk analysis, counterparty credit approval, and ongoing monitoring and reporting are adhered to.

The Group manages commodity price risks through negotiated supply contracts and forward physical contracts. However, because these contracts are, generally, in respect of raw material and utility purchases for own use, they are not accounted for as financial instruments.

#### Credit risk

Management has a credit policy in place under which each new customer is individually analysed for credit worthiness and assigned a purchase limit before the standard payment and delivery terms and conditions are offered. Because of the Group's customer base, there is no need for the Group to rely on external ratings. In most cases, bankers' references, trade credit insurance approvals and/or credit references from other suppliers are considered adequate. Purchase limits are reviewed on a regular basis.

In order to determine which customers are classified as having payment difficulties, the Group applies a mix of duration and frequency of default. The Group does not generally require collateral in respect of trade and other receivables.

The Group's exposure to credit risk is mainly influenced by its customer base. As such, it is concentrated to the default risk of its industry. However, geographically, there is no credit risk concentration, with the Group's customers spread throughout New Zealand and Australia. Credit risk exposure with respect to debtors is limited by stringent credit controls, by the utilisation of irrevocable letters of credit and trade credit insurances wherever required, and by the large number of customers within the Group's customer base.

The Group does not invest in securities, but accepts that surplus cash and cash equivalents may arise from time to time during the course of its management of cash. In these instances, it requires these surplus cash and cash equivalents to be deposited on call and only with counterparties approved by the Board as having the required credit ratings.

Foreign currency forward exchange contracts and interest rate swaps have been entered into with counterparties approved by the Board as having the required credit ratings. The Group's exposure to credit risk from these financial instruments is limited because it does not expect the non-performances of the obligations contained therein due to the high credit ratings of the financial institutions concerned. The Group does not require any collateral or security to support these financial instruments.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 7. RISKS AND FINANCIAL INSTRUMENTS (continued)

#### Management commentary (continued)

##### Liquidity risk

Liquidity risk represents the Group's ability to meet its contractual obligations. The Group evaluates its liquidity requirements on an ongoing basis. In general, the Group generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has credit lines in place to cover potential shortfalls. It also seeks to ensure that there is sufficient capacity within its overall funding facilities to enable it to draw on for one-off capital projects.

The Group's contractual cash flows and liquidity risk profile are set out in detail on page 55, with the Group's ability to meet its contractual obligations, particularly with respect to the repayment of bank loans, being conditional upon the Group's ability to meet its financial forecasts as disclosed at note 2 (under Going concern) to the financial statements.

##### Foreign currency risk

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the Company's functional currency, which is the New Zealand dollar (\$). The New Zealand dollar is also the presentation currency of the Group.

Foreign currency-denominated transactions are primarily in Australian dollars ("AUD"), U.S. dollars ("USD") and the Euro ("EUR"). It is the Group's policy to hedge foreign currency risks on material trade-related transactions as they arise. At any point in time, the Group also hedges a certain proportion of its estimated foreign currency exposure in respect of forecasted sales and purchases.

The Group's policy allows management to hedge up to 12 months forecast sales and purchases without the prior approval of the Board having first been obtained subject to compliance with the hedging limits within the policy.

The Group uses forward exchange contracts to hedge its foreign currency risk. Virtually all of the forward exchange contracts have maturities of less than one year at balance date.

The Group does not engage in speculative transactions or hold derivative financial instruments for trading purposes and requires that exposures to foreign currency risks, and details of all outstanding derivative instruments, are reported to and reviewed by the Board on a monthly basis.

##### Interest rate risk

Interest rate risks are continually monitored having regard to the circumstances at any given time.

Interest rate swaps have been entered into to hedge a proportion of the Group's exposure to interest rate fluctuations by ensuring that there is an appropriate mix, after having regard to the circumstances prevailing at the time, of fixed and floating rate exposure within the Group's total loans and borrowings.

The Group's policy allows management to hedge up to between 25% and 75% of the Group's core loans and borrowings without the prior approval of the Board having first been obtained.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 7. RISKS AND FINANCIAL INSTRUMENTS (continued)

#### Quantitative disclosures

##### Credit risk

The carrying amount of financial assets represents the Group's maximum credit exposure.

The Group has not renegotiated the terms of any financial assets which would result in the carrying amount no longer being past due or avoid a possible past due status.

The Group's maximum exposure to credit risk for trade and other receivables by geographic regions is as follows:

	2018 \$000	2017 \$000
New Zealand	8,897	8,679
Australia	5,247	6,568
Other regions	1,094	1,502
<b>Trade and other receivables</b>	<b>\$15,238</b>	<b>\$16,749</b>

The status of trade and other receivables at the reporting date is as follows:

	Gross receivable 2018 \$000	Impairment provisions 2018 \$000	Gross receivable 2017 \$000	Impairment provisions 2017 \$000
Not past due	13,875	-	14,293	-
Past due 0 - 30 days	813	-	1,779	-
Past due 31 - 120 days	203	-	228	-
Past due > 120 days	390	(43)	483	(34)
<b>Total</b>	<b>\$15,281</b>	<b>\$(43)</b>	<b>\$16,783</b>	<b>\$(34)</b>

In summary, trade and other receivables are determined to be impaired as follows:

	2018 \$000	2017 \$000
Trade and other receivables - gross	15,281	16,783
Individual impairment provisions	(43)	(34)
<b>Trade and other receivables - net</b>	<b>\$15,238</b>	<b>\$16,749</b>

Individually impaired trade receivables relate to a small number of customers where the amounts involved are immaterial. In the case of insolvency, the Group generally writes off the receivable in full unless there is clear evidence that a receipt, whether directly or by way of a claim under the Group's trade credit insurance policy, is highly probable.

The details of movements in the impairment provision are as follows:

	2018 \$000	2017 \$000
Balance at 1 July	(34)	(176)
Impaired trade receivables written off	-	61
Changes in impairment provision	(9)	81
<b>Balance at 30 June</b>	<b>\$(43)</b>	<b>\$(34)</b>

Changes in the impairment provision are included in distribution expenses in the income statement.



## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 7. RISKS AND FINANCIAL INSTRUMENTS (continued)

#### Quantitative disclosures (continued)

##### Liquidity risk

The following table sets out the contractual cash flows for all material financial liabilities (including projected interest costs).

	Statement of financial position \$000	Total contractual cash flows \$000	Timing of contractual cash flows				
			6 months or less \$000	6 - 12 months \$000	1 - 2 years \$000	2 - 5 years \$000	Greater than 5 years \$000
<b>2018</b>							
Secured bank loans	31,500	33,280	7,119	3,045	23,116	-	-
Trade creditors and accruals	19,490	19,490	19,490	-	-	-	-
<b>Total non-derivative liabilities</b>	<b>\$50,990</b>	<b>\$52,770</b>	<b>\$26,609</b>	<b>\$3,045</b>	<b>\$23,116</b>	<b>-</b>	<b>-</b>
<b>Interest rate swaps</b>	<b>\$585</b>	<b>\$761</b>	<b>\$169</b>	<b>\$131</b>	<b>\$227</b>	<b>\$195</b>	<b>\$39</b>
<b>Forward exchange contracts</b>							
Inflow		(40,815)	(27,920)	(10,669)	(2,226)	-	-
Outflow		39,856	27,187	10,493	2,176	-	-
	<b>\$(963)</b>	<b>\$(959)</b>	<b>\$(733)</b>	<b>\$(176)</b>	<b>\$(50)</b>	<b>-</b>	<b>-</b>
<b>2017</b>							
Secured bank loans	41,500	43,913	851	7,351	35,711	-	-
Trade creditors and accruals	18,855	18,855	18,855	-	-	-	-
<b>Total non-derivative liabilities</b>	<b>\$60,355</b>	<b>\$62,768</b>	<b>\$19,706</b>	<b>\$7,351</b>	<b>\$35,711</b>	<b>-</b>	<b>-</b>
<b>Interest rate swaps</b>	<b>\$785</b>	<b>\$923</b>	<b>\$230</b>	<b>\$178</b>	<b>\$277</b>	<b>\$238</b>	<b>-</b>
<b>Forward exchange contracts</b>							
Inflow		(57,623)	(38,596)	(19,027)	-	-	-
Outflow		57,267	38,510	18,757	-	-	-
	<b>\$(391)</b>	<b>\$(356)</b>	<b>\$(86)</b>	<b>\$(270)</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 7. RISKS AND FINANCIAL INSTRUMENTS (continued)

#### Quantitative disclosures (continued)

##### Foreign currency risk

The Group's exposure to foreign currency risk can be summarised as follows:

	AUD \$000	USD \$000	EUR \$000	Others \$000
<b>NZD equivalent of these foreign currencies:</b>				
<b>2018</b>				
Trade receivables	5,190	767	24	45
Trade payables	(2,466)	(4,455)	(1)	(7)
<b>Net statement of financial position exposure before hedging activity</b>	<b>2,724</b>	<b>(3,688)</b>	<b>23</b>	<b>38</b>
Estimated forecast sales for which hedging is in place	28,374	-	-	-
Estimated forecast purchases for which hedging is in place	-	(5,412)	-	-
<b>Net cash flow exposure before hedging activity</b>	<b>31,098</b>	<b>(9,100)</b>	<b>23</b>	<b>38</b>
Forward exchange contracts				
Notional amounts	(31,098)	9,100	-	-
<b>Net unhedged exposure</b>	<b>-</b>	<b>-</b>	<b>\$23</b>	<b>\$38</b>
<b>2017</b>				
Trade receivables	6,216	593	65	258
Trade payables	(2,239)	(5,843)	(13)	(24)
<b>Net statement of financial position exposure before hedging activity</b>	<b>3,977</b>	<b>(5,250)</b>	<b>52</b>	<b>234</b>
Estimated forecast sales for which hedging is in place	27,362	-	63	-
Estimated forecast purchases for which hedging is in place	-	(12,179)	-	-
<b>Net cash flow exposure before hedging activity</b>	<b>31,339</b>	<b>(17,429)</b>	<b>115</b>	<b>234</b>
Forward exchange contracts				
Notional amounts	(31,339)	17,429	-	-
<b>Net unhedged exposure</b>	<b>-</b>	<b>-</b>	<b>\$115</b>	<b>\$234</b>

## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 7. RISKS AND FINANCIAL INSTRUMENTS (continued)

#### Quantitative disclosures (continued)

#### Interest rate risk – re-pricing analysis

At balance date, the interest rate profile of the Group's interest-bearing financial instruments was as follows:

	Total \$000	6 months or less \$000	6 – 12 months \$000	1 – 2 years \$000	2 – 5 years \$000	Greater than 5 years \$000
<b>2018</b>						
<b>Financial assets and liabilities</b>						
Cash and cash equivalents	2,111	2,111	-	-	-	-
Secured bank loans	(31,500)	(31,500)	-	-	-	-
	<b>(29,389)</b>	<b>(29,389)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Related derivatives</b>						
Effect of interest rate swaps	-	12,500	-	(2,500)	(7,500)	(2,500)
<b>Total</b>	<b>\$(29,389)</b>	<b>\$(16,889)</b>	<b>-</b>	<b>\$(2,500)</b>	<b>\$(7,500)</b>	<b>\$(2,500)</b>
<b>2017</b>						
<b>Financial assets and liabilities</b>						
Cash and cash equivalents	1,255	1,255	-	-	-	-
Secured bank loans	(41,500)	(41,500)	-	-	-	-
	<b>(40,245)</b>	<b>(40,245)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Related derivatives</b>						
Effect of interest rate swaps	-	12,500	-	(5,000)	(7,500)	-
<b>Total</b>	<b>\$(40,245)</b>	<b>\$(27,745)</b>	<b>-</b>	<b>\$(5,000)</b>	<b>\$(7,500)</b>	<b>-</b>

## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 7. RISKS AND FINANCIAL INSTRUMENTS (continued)

#### Sensitivity analysis

In managing interest rate and currency risks, the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer-term, however, changes in foreign exchange and interest rates will have an impact on profit.

At 30 June 2018, it is estimated that a general increase of one percentage point in interest rates would decrease the Group's profit before income tax by approximately \$152,000 per annum (2017: increase loss by \$269,000). Interest rate swaps have been included in this calculation.

It is estimated that a general increase of ten percentage points in the value of the New Zealand dollar against other foreign currencies at balance date would have no impact on the Group's profit or loss before income tax for the years ended 30 June 2018 and 2017 after taking into account the forward exchange contracts that the Group had in place at balance date to hedge these exposures.

#### Hedging

##### Interest rate hedges

The Group has a policy of ensuring that between 25% and 75% of its exposure to changes in interest rates on borrowings is on a fixed rate basis. Interest rate swaps, denominated in New Zealand dollars, have been entered into to achieve an appropriate mix of fixed and floating rate exposure within the Group's policy.

At 30 June 2018, the Group had active interest rate swaps with a notional contract amount of \$12,500,000 (2017: \$17,500,000). \$5,000,000 of these will mature within six months of balance date (2017: \$5,000,000), with the balance maturing over the next three years (2017: four years). The Group also had forward starting swaps as at 30 June 2018 of \$5,000,000 (2017: Nil), effectively extending the swaps maturing within six months of balance date out for a further four years, in respect of \$2,500,000, and six years, in respect of the balance.

The Group has designated its interest rate swaps as cash flow hedges. These swaps have fixed swap rates ranging from 2.88% to 4.92% (2017: 4.47% to 4.92%).

The net fair value of swaps at 30 June 2018 was a loss of \$585,000 (2017: loss of \$785,000).

##### Forecast transactions

The Group classifies the forward exchange contracts taken out to hedge forecast transactions as cash flow hedges. These forecast transactions are expected to occur within 18 months of balance date (2017: 12 months). The net fair value of forward exchange contracts used as hedges of forecast transactions at 30 June 2018 was a gain of \$919,000 (2017: gain of \$301,000).

##### Recognised assets and liabilities

The fair value of forward exchange contracts used as economic hedges of monetary assets and liabilities in foreign currencies at 30 June 2018 was a gain of \$44,000 (2017: gain of \$90,000) recognised in fair value derivatives.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 7. RISKS AND FINANCIAL INSTRUMENTS (continued)

#### Classification and fair values

The following tables show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

	Hedging instruments \$000	Loans and receivables \$000	Other amortised cost \$000	Total carrying amount \$000	Fair value \$000	Fair value hierarchy Level 2 \$000
<b>2018</b>						
<b>Assets</b>						
Derivatives	971	-	-	971	971	971
Trade and other receivables	-	15,238	-	15,238	15,238	-
Cash and cash equivalents	-	2,111	-	2,111	2,111	-
<b>Total assets</b>	<b>\$971</b>	<b>\$17,349</b>	<b>-</b>	<b>\$18,320</b>	<b>\$18,320</b>	
<b>Liabilities</b>						
Loans and borrowings	-	-	27,500	27,500	27,500	27,500
<b>Total non-current liabilities</b>	<b>-</b>	<b>-</b>	<b>27,500</b>	<b>27,500</b>	<b>27,500</b>	
Loans and borrowings	-	-	4,000	4,000	4,000	4,000
Derivatives	593	-	-	593	593	593
Trade and other payables	-	-	23,566	23,566	23,566	-
<b>Total current liabilities</b>	<b>593</b>	<b>-</b>	<b>27,566</b>	<b>28,159</b>	<b>28,159</b>	
<b>Total liabilities</b>	<b>\$593</b>	<b>-</b>	<b>\$55,066</b>	<b>\$55,659</b>	<b>\$55,659</b>	
<b>2017</b>						
<b>Assets</b>						
Derivatives	898	-	-	898	898	898
Trade and other receivables	-	16,750	-	16,750	16,750	-
Cash and cash equivalents	-	1,255	-	1,255	1,255	-
<b>Total assets</b>	<b>\$898</b>	<b>\$18,005</b>	<b>-</b>	<b>\$18,903</b>	<b>\$18,903</b>	
<b>Liabilities</b>						
Loans and borrowings	-	-	35,000	35,000	35,000	35,000
<b>Total non-current liabilities</b>	<b>-</b>	<b>-</b>	<b>35,000</b>	<b>35,000</b>	<b>35,000</b>	
Loans and borrowings	-	-	6,500	6,500	6,500	6,500
Derivatives	1,292	-	-	1,292	1,292	1,292
Trade and other payables	-	-	22,687	22,687	22,687	-
<b>Total current liabilities</b>	<b>1,292</b>	<b>-</b>	<b>29,187</b>	<b>30,479</b>	<b>30,479</b>	
<b>Total liabilities</b>	<b>\$1,292</b>	<b>-</b>	<b>\$64,187</b>	<b>\$65,479</b>	<b>\$65,479</b>	

There were no financial assets or liabilities with fair values categorised as Level 1 or Level 3 in the fair value hierarchy.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 7. RISKS AND FINANCIAL INSTRUMENTS (continued)

#### Classification and fair values (continued)

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Derivatives, being forward exchange contracts and interest rate swaps, have been measured at fair value using relevant valuation techniques which include net present value and discounted cash flow models and comparison with similar instruments for which observable market prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other information used in estimating discount rates and foreign currency exchange rates.

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables. Non-derivative financial instruments are recognised initially at fair value, inclusive of transaction costs, and are subsequently measured at amortised cost using the effective interest rate method less any impairment losses.

The underlying interest rate margins of loans and borrowings, which were renegotiated in June 2018, approximate current margins, and fair value approximates the present value of future principal and interest cash flows.

#### Determination of fair values

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

#### Master netting or similar agreements

The Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding are aggregated into a single net amount that is payable by one party to the other. In certain circumstances – for example, when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The ISDA agreements do not meet the criteria for offsetting in the statement of financial position. This is because the Group does not have any currently legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrences of future events such as a default on the bank loans or other credit events.

The following table sets out the carrying amounts of recognised derivatives that are subject to master netting agreements:

	2018		2017	
	Derivative assets \$000	Derivative liabilities \$000	Derivative assets \$000	Derivative liabilities \$000
Gross amounts in the statement of financial position	971	(593)	898	(1,292)
Amounts offset	-	-	-	-
<b>Net amounts in the statement of financial position</b>	<b>971</b>	<b>(593)</b>	<b>898</b>	<b>(1,292)</b>
Related amounts that are not offset based on ISDA	(593)	593	(898)	898
<b>Net amounts</b>	<b>\$378</b>	<b>-</b>	<b>-</b>	<b>\$(394)</b>

## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 8. OTHERS

This section includes the remaining information relating to the Group financial statements which is required to be disclosed to comply with financial reporting standards.

#### 8a. Equity-accounted investees

The details relating to the Group's 27.5% interest in Cavalier Wool Holdings Limited (CWH) and 50% interest in CWS Assets Limited (CWSA) are set out below.

CWH is a commission woolscourer and provides the Group's carpet operation with wool scouring services, whether directly or through the wool exporters from whom the Group purchases most of its wool.

CWSA is a property-owning company.

CWH acquired Whakatu Wool Scour Limited and Kaputone Wool Scour (1994) Limited from New Zealand Wool Services International Limited (NZWSI) effective 31 December 2016 as part of the merger of CWH and the woolscouring operations of NZWSI. Part of the consideration for the purchase of the two entities involved the issue of new shares by CWH to NZWSI, diluting the Group's interest in CWH from 50% to 27.5% as at that date.

In accounting for the dilution of the Group's interest in CWH as at 31 December 2016, the Group recognised a gain of \$3,929,000, being the difference between the carrying amount of the investment in CWH immediately before and after the merger transaction that led to the dilution of its interest in CWH.

CWH declared as part of the merger, cash dividends totalling \$7.3 million, with \$6.5 million paid in January 2017 and the balance in April 2017.

CWH also declared, prior to the merger, a distribution in specie of shares with a fair value of \$3.4 million in CWSA to the CWH shareholders, effectively reducing the carrying value of the Group's investment in CWH by \$1.7 million while increasing the carrying value of the Group's investment in CWSA by the same amount.

The details relating to the Group's interest in equity-accounted investees are set out below:

	2018 \$000	2017 \$000
Carrying value at 1 July	23,490	23,175
Share of comprehensive income	1,194	56
Dividends received	(140)	(3,670)
Dividends in specie received	-	(1,700)
Carrying value of CWSA	-	1,700
Gain on dilution	-	3,929
<b>Carrying value at 30 June</b>	<b>\$24,544</b>	<b>\$23,490</b>

## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 8. OTHERS (continued)

#### 8a. Equity-accounted investees (continued)

The following tables summarise the financial information of CWH as included in their own financial statements (unadjusted for the percentage ownership interest held) and the Group's share of net assets, profit and other comprehensive income of CWH and CWSA:

	2018 \$000		2017 \$000	
	CWH	CWSA	CWH	CWSA
Cash and cash equivalents	4,013	50	70	166
Other current assets	7,617	-	7,412	-
Non-current assets	110,503	3,369	112,403	3,400
<b>Total assets</b>	<b>122,133</b>	<b>3,419</b>	<b>119,885</b>	<b>3,566</b>
Current liabilities	5,839	11	5,409	62
Non-current liabilities	36,122	-	38,313	-
<b>Total liabilities</b>	<b>41,961</b>	<b>11</b>	<b>43,722</b>	<b>62</b>
<b>Net assets (100%)</b>	<b>\$80,172</b>	<b>\$3,408</b>	<b>\$76,163</b>	<b>\$3,504</b>
Revenue	50,786	288	35,254	144
Depreciation	(3,398)	(31)	(3,287)	-
Net interest expense	(1,850)	-	(1,743)	-
Other expenses	(38,900)	(1)	(26,852)	-
Merger costs	-	-	(3,906)	-
<b>Profit/(Loss) before tax</b>	<b>6,638</b>	<b>256</b>	<b>(534)</b>	<b>144</b>
Income tax (expense)/benefit	(2,276)	(72)	453	(40)
<b>Profit/(Loss) after tax</b>	<b>4,362</b>	<b>184</b>	<b>(81)</b>	<b>104</b>
Changes in fair value of cash flow hedges (net of tax)	(354)	-	35	-
<b>Total comprehensive income (100%)</b>	<b>\$4,008</b>	<b>\$184</b>	<b>\$(46)</b>	<b>\$104</b>
<b>Percentage ownership interest</b>	<b>27.5%</b>	<b>50.0%</b>	<b>27.5%</b>	<b>50.0%</b>
Share of net assets	22,047	1,705	20,945	1,753
Initial transaction costs	792	-	792	-
<b>Carrying value of interest in equity-accounted investees</b>	<b>\$22,839</b>	<b>\$1,705</b>	<b>\$21,737</b>	<b>\$1,753</b>
Group's share of profit after tax	1,199	92	7	52
Group's share of changes in fair value of cash flow hedges (net of tax)	(97)	-	(3)	-
<b>Group's share of total comprehensive income of equity-accounted investees</b>	<b>\$1,102</b>	<b>\$92</b>	<b>\$4</b>	<b>\$52</b>



## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 8. OTHERS (continued)

#### 8a. Equity-accounted investees (continued)

Due to potential indicators of impairment, in particular the continued uncertainty of future market conditions in the New Zealand wool scouring industry and the impact on profitability, the Group also assessed the recoverable amount of its equity-accounted investment in CWH as at 30 June 2018 for impairment.

Impairment testing was based on cash flow projection for the next five years and performed using a discounted cash flow model to determine the recoverable amount of the asset. As a result of the testing performed, no impairment was required to be recognised.

The following key assumptions were used in the model, taking into account historic data and forecast economic conditions:

- Processing volumes in 2019 up 4% on 2018 and to remain unchanged thereafter;
- Scouring tariff rates based on 2019, with no changes going forward;
- Wool grease price of USD3.40/kg in 2019 increasing to USD3.88/kg in 2020 and USD4.01/kg thereafter;
- NZD:USD exchange rates ranging from 0.6950 to 0.7063 between 2019 and 2022 and 0.7006 thereafter;
- No new entrant into the New Zealand wool scouring industry and existing structure of the industry remaining substantially unchanged;
- Post-tax discount rate of 10.3% (2017: 11.0%);
- Long term growth rate of 2.0% (2017: 2%)

Given the headroom that existed between the recoverable and carrying amount of the Group's investment in CWH, the recoverability of this asset is not considered to be particularly sensitive to changes in the underlying assumptions in the discounted cash flow model.

*The Group's interest in equity-accounted investees comprise interests in associates and joint ventures.*

*Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Joint ventures are arrangements in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.*

*Interests in associates and joint ventures are accounted for using the equity method (equity-accounted investees).*

*Equity-accounted investees are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence or joint control ceases.*

*Management has assessed the recoverability of the Group's investment in CWH. While the Board has received unsolicited expressions of interest for the purchase of various Group assets, including CWH, the Board is not currently considering any offers. The Board also reaffirms management's assessment that the risk of a new entrant into the scouring industry is remote.*

## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 8. OTHERS (continued)

#### 8b. Provisions

	Insurances \$000	Restructuring \$000	Onerous contracts \$000	Warranties \$000	Total \$000
Balance at 1 July 2017	210	1,277	1,839	980	4,306
Amounts provided during the year	-	712	-	179	891
Amounts incurred during the year	-	(114)	(697)	(153)	(964)
Released to profit or loss during the year	-	-	(901)	-	(901)
<b>Balance at 30 June 2018</b>	<b>\$210</b>	<b>\$1,875</b>	<b>\$241</b>	<b>\$1,006</b>	<b>\$3,332</b>
Non-current	210	375	28	505	1,118
Current	-	1,500	213	501	2,214
<b>Balance at 30 June 2018</b>	<b>\$210</b>	<b>\$1,875</b>	<b>\$241</b>	<b>\$1,006</b>	<b>\$3,332</b>
Balance at 1 July 2016	210	3,783	2,397	810	7,200
Amounts provided during the year	-	-	-	202	202
Amounts incurred during the year	-	(2,356)	(558)	(32)	(2,946)
Released to profit or loss during the year	-	(150)	-	-	(150)
<b>Balance at 30 June 2017</b>	<b>\$210</b>	<b>\$1,277</b>	<b>\$1,839</b>	<b>\$980</b>	<b>\$4,306</b>
Non-current	210	910	1,080	413	2,613
Current	-	367	759	567	1,693
<b>Balance at 30 June 2017</b>	<b>\$210</b>	<b>\$1,277</b>	<b>\$1,839</b>	<b>\$980</b>	<b>\$4,306</b>

#### Insurances

Certain companies within the Group are parties to the ACC Partnership Programme under which these companies assume the costs normally assumed by ACC (Accident Compensation Corporation of New Zealand) for accidents in the workplace. The Group has recognised the liability for claims that are expected to be paid out to employees covered under the programme as if it were an insurer and has applied NZ IFRS 4 *Insurance Contracts*.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 8. OTHERS (continued)

#### 8b. Provisions (continued)

##### Restructuring

Provision for restructuring relates to the costs to be incurred in relation to the various initiatives previously undertaken to reduce the Group's cost base.

These initiatives included:

- consolidation of woollen yarn spinning operations (previously in Napier and Wanganui) to a single hub at the Napier plant;
- down-scaling of the semi-worsted yarn spinning operation in Wanganui;
- relocation of the felted yarn operation from Christchurch to Wanganui;
- closure of the Christchurch plant;
- outsourcing of Australian warehousing and distribution function to a third party logistics provider; and
- consolidation of the Cavalier Bremworth and Norman Ellison Carpets broadloom carpet businesses.

##### Onerous contracts

The provision for onerous contracts relates to operating leases in respect of premises that were surplus to requirements following the consolidation of the Cavalier Bremworth and Norman Ellison Carpets broadloom carpet businesses in 2012 and 2013. These premises have been sub-let for varying lease terms, but changes in market conditions have meant that the rental income is lower than the rental expense. The obligation for the discounted future payments, net of expected rental income, has been provided for.

During the year, the Group negotiated the early surrender of one of the leased premises that was surplus to requirements following the restructuring of the broadloom carpet business. As a consequence of this early surrender, adjustments were made to both the provision for restructuring and the provision for onerous contracts to reflect the agreement that was reached and the impact of that agreement on both provisions.

##### Warranties

The provision for warranties relates mainly to carpet sold during the years ended 30 June 2018 and 2017. The provision is based on estimates made from historical warranty data associated with similar products sold by the Group.

*A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.*

*Provision for restructuring requires judgement to be applied by considering a range of factors including the termination and support cost of affected employees and cost to make good leased property. Ongoing cost of onerous contracts and the income that could be expected from the sub-leasing of surplus property are considered in determining the provision for onerous contracts.*

## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 8. OTHERS (continued)

#### 8c. Employee benefits

	2018 \$000	2017 \$000
Liability for retiring allowances	96	96
Liability for long service leave	815	1,001
<b>Total employee benefits</b>	<b>\$911</b>	<b>\$1,097</b>

Short-term employee benefits are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods adjusted for the probability of the benefits vesting and discounted at the appropriate rate to determine its present value.

In assessing the Group's liabilities for long-term employee benefits, regard was given to the age of employees, the likelihood of their reaching the various qualifying dates for retiring allowances and long service leave and their length of service at those dates.

#### 8d. Operating leases

	2018 \$000	2017 \$000
<b>Lease payments relating to non-cancellable operating leases</b>	<b>\$3,328</b>	<b>\$3,758</b>
Gross commitments under non-cancellable operating leases:		
Less than one year	2,875	4,016
Between one and five years	4,675	9,204
Greater than five years	63	780

The Group's non-cancellable operating leases relate mainly to leases of buildings, with lease terms, and right of renewal, of the major sites as follows:

	Expiry date	Rights of renewal
6 Hautu Drive, Auckland, New Zealand	Within 6 years	None
373 Neilson Street, Auckland, New Zealand	Within 2 years	None
273 Neilson Street, Auckland, New Zealand	Within 1 year	None

These leases provide for regular reviews of rentals to reflect market rates. In some cases, they provide for rent reviews that are based on changes in the relevant consumer price index.

Two of these leases are surplus to requirements following the consolidation of the Cavalier Bremworth and Norman Ellison Carpets broadloom carpet businesses in 2012 and 2013. More information on these two leased properties can be found under provision for onerous contracts in note 8b (Provisions) to the financial statements.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 8. OTHERS (continued)

#### 8d. Operating leases (continued)

	2018 \$000	2017 \$000
<b>Sublease income relating to non-cancellable operating leases</b>	<b>\$891</b>	<b>\$885</b>
Gross sublease income commitments under non-cancellable operating leases:		
Less than one year	596	486
Between one year and three years	236	707

*Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are dealt with as operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are also recognised over the term of the lease by netting these off against the related operating lease payments.*

#### 8e. Contingencies

The Group has granted indemnities in favour of Bank of New Zealand and National Australia Bank Limited (together, "the Bank") at balance date in respect of Bank guarantees relating to operating leases and other commitments totalling \$2,095,000 (2017: \$1,347,000).

Some subsidiaries in the Group are parties to a cross guarantee in favour of the Bank securing each other's obligations.

The Group's indebtedness under the cross guarantee at balance date amounted to \$31,500,000 (2017: \$41,500,000).

#### 8f. Related parties

##### Transactions with directors and senior managers

For the purposes of this note, a senior manager means a person who is not a director but occupies a position that allows that person to exercise significant influence over the management or administration of the Group, as defined in section 6 of the Financial Markets Conduct Act 2013.

##### *As shareholders*

Some of the Directors are shareholders in the Company.

Their shares rank pari passu with all the other ordinary shares in the capital of the Company and do not therefore confer additional rights to dividends paid or to attend or vote at any meetings of the shareholders of the Company.

##### *As lenders or borrowers*

There were no loans to, or from, the Directors and senior managers during the year ended 30 June 2018 (2017: Nil).

## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 8. OTHERS (continued)

#### 8f. Related parties (continued)

##### Transactions with directors and senior managers (continued)

###### *Directors' remuneration and benefits*

The fees paid to the Directors for services in their capacity as directors totalled \$345,000 during the year ended 30 June 2018 (2017: \$331,000).

No other services were provided by the Directors during the year (2017: Nil).

The scale of fees payable to the Directors was last reviewed and approved by the Board in January 2018, with the current scale of fees applying with effect from 1 January 2018 set out below:

Directors' fees	Per annum	Explanatory notes
Non-executive Chairman of the Board	\$112,000	Inclusive of time spent on Board committees and as Chairman of Nomination Committee
Non-executive directors (including Deputy Chairman of the Board)	\$56,000	Inclusive of time spent on Board committees
Chairman of the Audit Committee	\$9,000	In recognition of additional time and responsibilities as Chairman of Audit Committee
Chairman of the Remuneration Committee	\$5,000	In recognition of additional time and responsibilities as Chairman of Remuneration Committee

G C W Biel, a long-serving Director, is entitled to a lump sum retiring allowance pursuant to an arrangement that is contained in the Company's constitution. The amount of this retiring allowance, which was set in November 2007, is \$96,000. The Company decided at that time that retiring allowances would no longer be offered in respect of new Directors appointed to the Board.

The Group notes that the Directors are precluded by the NZX Main Board Listing Rules from voting at general meetings of shareholders on certain matters prescribed by the New Zealand Exchange. These matters include, in the case of the Directors who are also shareholders, shareholders' approval of directors' fees.

###### *Senior managers' (including the Chief Executive Officer's) remuneration and benefits*

In addition to salaries and performance-based payments, the Group also provides non-cash benefits to the Chief Executive Officer of the Company and senior managers of the Group.

These non-cash benefits may include the provision of motor vehicles, income protection and life insurances and medical insurances.

The remuneration paid and payable, and the benefits provided, to the Chief Executive Officer and senior managers in their capacities as employees comprised:

	2018 \$000	2017 \$000
Salaries, bonuses and leave entitlements	2,940	2,924
Employee benefits	95	117
Termination payments	152	75
	<b>\$3,187</b>	<b>\$3,116</b>

The Group has not provided the Chief Executive Officer and senior managers with any post-employment benefits.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 8. OTHERS (continued)

#### 8f. Related parties (continued)

##### Transactions with directors and senior managers (continued)

###### Other transactions

The Group deals with many entities and organisations in the normal course of business. The Group is not aware of any of the Directors, the Chief Executive Officer or senior managers, or their related parties, holding positions in any of these entities or organisations that result in them having control or significant influence over the financial or operating policies of these entities or organisations.

The Group does not transact with the Directors, the Chief Executive Officer or senior managers, and their related parties, other than in their capacity as directors and employees, except that they may purchase goods from the Group for their own domestic use. These purchases are on the same terms and conditions as those applying to all employees of the Group and are immaterial and personal in nature.

##### Transactions with equity-accounted investees, Cavalier Wool Holdings Limited (CWH) and CWS Assets Limited (CWSA)

The Group did not receive any dividends from CWH during the year (2017: \$3,670,000).

The value of wool scouring services contracted directly with CWH during the year was \$473,000 (2017: \$524,000).

The Group owed CWH \$65,063 (inclusive of GST) (2017: \$42,509) in respect of invoices for wool scouring services provided in June 2018, but which were not due for payment at balance date. At the same time, CWH owed the Group \$48,349 (inclusive of GST) (2017: \$59,706) being rebates in respect of scouring services and wool storage provided prior to balance date. All these amounts were paid in full after balance date.

The Group received a dividend of \$140,000 from CWSA during the year (2017: Nil).

#### 8g. Group entities

##### Operating subsidiaries of the Group

	Principal activity	Country of incorporation	Interest (%)	
			2018	2017
Cavalier Bremworth Limited	Carpet manufacturing and distribution	New Zealand	100	100
Cavalier Bremworth Pty Limited	Carpet distribution	Australia	100	100
Cavalier Spinners Limited	Carpet yarn spinning	New Zealand	100	100
Elco Direct Limited	Wool acquisition	New Zealand	100	100
Norman Ellison Carpets Limited	Carpet distribution	New Zealand	100	100
Norman Ellison Carpets Pty Limited	Carpet distribution	Australia	100	100
Radford Yarn Technologies Limited	Carpet yarn spinning	New Zealand	100	100

##### Equity-accounted investees of the Group

	Principal activity	Country of incorporation	Interest (%)	
			2018	2017
Cavalier Wool Holdings Limited	Wool scouring	New Zealand	27.5	27.5
CWS Assets Limited	Property owning	New Zealand	50.0	50.0

#### 8h. Event after balance date

There have been no events subsequent to 30 June 2018 which would materially affect the financial statements.

## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 8. OTHERS (continued)

#### 8i. Standards, interpretations and amendments to standards

The following accounting standards and amendments to existing standards are not yet effective and have not been early adopted by the Group:

##### **NZ IFRS 9 *Financial Instruments* (effective for annual periods beginning on or after 1 January 2018)**

NZ IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of NZ IFRS 9 was issued in September 2014 and replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments.

NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets:

- amortised cost;
- fair value through other comprehensive income; and
- fair value through profit or loss.

The basis of classification depends on the entity's business model and the contracted cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling.

There is now a new expected credit losses model that replaces the incurred loss impairment model used in NZ IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

NZ IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the "hedged ratio" to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under NZ IAS 39.

The Group will adopt NZ IFRS 9 for its financial year ending 30 June 2019.

Management has considered the impact of the new financial asset classification categories and credit impairment based on an expected credit loss model. Due to the extent of material financial instruments and controlled debtor balances, management's initial review has determined that this new standard will not have a significant financial impact on the Group's financial statements.

##### **NZ IFRS 15 *Revenue from Contracts with Customers* (effective for annual periods beginning on or after 1 January 2018)**

NZ IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.

The standard replaces NZ IAS 18 *Revenue* and NZ IAS 11 *Construction Contracts* and related interpretations.

The Group will adopt NZ IFRS 15 for its financial year ending 30 June 2019.

Management has assessed the accounting implications of NZ IFRS 15 and notes that due to the nature of sale arrangements with customers and the absence of bundled products or services, this new standard is not expected to have a material impact on the Group's operations in New Zealand and Australia.



## Notes to the Financial Statements (continued)

For the year ended 30 June 2018

### 8. OTHERS (continued)

#### 8i. Standards, interpretations and amendments to standards (continued)

##### **NZ IFRS 16 Leases (effective for accounting periods beginning on or after 1 January 2019)**

NZ IFRS 16 which was published by the International Accounting Standards Board (“IASB”) in January 2016 will replace the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee is required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet).

NZ IFRS 16 eliminates the lessee’s classification of leases as either finance leases or operating leases and introduces a single lessee accounting model. Applying the new model, a lessee is required to recognise right-of-use (ROU) assets and lease liabilities (reflecting future lease payments) for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The Group will adopt NZ IFRS 16 for its financial year ending 30 June 2020.

The Group has performed an analysis of the new standard on its existing operating lease arrangements as a lessee. Based on this analysis, the Group expects the operating leases identified at note 8d (Operating leases) to the financial statements to be recognised as ROU assets with corresponding lease liabilities under the new standard.

The operating lease commitments on an undiscounted basis amount to approximately 6% of the Group’s total assets and 13% of total liabilities. Assuming no additional new operating leases in future years until the effective date, the Group expects the amount of ROU asset and lease liability to be lower due to discounting and as the lease terms run down.

## Trend Statement

	2018 \$000	2017 \$000	2016 \$000	2015 \$000	2014 \$000	2013 \$000	2012 \$000
<b>Financial Performance</b>							
<b>Operating revenue</b>	<b>\$148,120</b>	<b>\$156,120</b>	<b>\$190,371</b>	<b>\$215,728</b>	<b>\$200,642</b>	<b>\$201,739</b>	<b>\$217,198</b>
EBITDA (normalised)	9,998	2,572	12,275	8,517	14,609	12,142	12,278
Depreciation	(3,561)	(3,251)	(3,352)	(5,862)	(5,849)	(6,328)	(6,738)
<b>EBIT (normalised)</b>	<b>6,437</b>	<b>(679)</b>	<b>8,923</b>	<b>2,655</b>	<b>8,760</b>	<b>5,814</b>	<b>5,540</b>
Net interest expense	(2,798)	(2,936)	(3,374)	(3,948)	(3,484)	(3,740)	(4,049)
Share of after tax profit of equity-accounted investee (normalised)	1,419	797	2,670	2,034	2,044	5,013	3,302
<b>Profit/(Loss) before income tax (normalised)</b>	<b>5,058</b>	<b>(2,818)</b>	<b>8,219</b>	<b>741</b>	<b>7,320</b>	<b>7,087</b>	<b>4,793</b>
Income tax (expense)/benefit	(1,084)	962	(1,906)	454	(1,530)	(463)	(510)
<b>Profit/(Loss) after tax (normalised)</b>	<b>3,974</b>	<b>(1,856)</b>	<b>6,313</b>	<b>1,195</b>	<b>5,790</b>	<b>6,624</b>	<b>4,283</b>
Abnormal costs (after tax)	107	(268)	(3,198)	(26,910)	-	(3,594)	(5,916)
<b>Profit/(Loss) after tax attributable to shareholders of the Company (GAAP)</b>	<b>4,081</b>	<b>(2,124)</b>	<b>3,115</b>	<b>(25,715)</b>	<b>5,790</b>	<b>3,030</b>	<b>(1,633)</b>
Ordinary dividends paid	-	-	-	-	(4,785)	-	(7,509)
<b>Profit/(Loss) after dividends</b>	<b>\$4,081</b>	<b>\$(2,124)</b>	<b>\$3,115</b>	<b>\$(25,715)</b>	<b>\$1,005</b>	<b>\$3,030</b>	<b>\$(9,142)</b>
<b>Financial Position</b>							
Shareholders' equity	72,222	67,890	69,361	66,184	92,959	93,918	90,855
Loans and borrowings	27,500	35,000	37,700	45,000	61,220	58,896	68,503
Term liabilities	2,029	3,728	4,461	4,938	6,363	6,961	5,591
Loans and borrowings - current portion	4,000	6,500	-	11,767	-	320	172
Current liabilities	27,253	25,739	35,854	41,237	37,518	36,542	36,313
<b>Shareholders' equity and total liabilities</b>	<b>\$133,004</b>	<b>\$138,857</b>	<b>\$147,376</b>	<b>\$169,126</b>	<b>\$198,060</b>	<b>\$196,637</b>	<b>\$201,434</b>
Fixed assets	35,142	37,123	36,820	47,910	63,900	68,932	75,080
Investment in equity-accounted investee	24,544	23,490	23,175	24,937	25,900	23,856	22,593
Goodwill and other intangibles	2,362	2,362	2,362	2,362	7,794	7,794	7,502
Deferred tax asset	4,971	5,532	3,496	1,388	3,107	2,797	1,998
<b>Non-current assets</b>	<b>67,019</b>	<b>68,507</b>	<b>65,853</b>	<b>76,597</b>	<b>100,701</b>	<b>103,379</b>	<b>107,173</b>
Cash at bank	2,111	1,255	1,200	2,834	2,375	5,932	2,029
Current assets	63,874	69,095	80,323	89,695	94,984	87,326	92,232
<b>Total assets</b>	<b>\$133,004</b>	<b>\$138,857</b>	<b>\$147,376</b>	<b>\$169,126</b>	<b>\$198,060</b>	<b>\$196,637</b>	<b>\$201,434</b>

## Trend Statement (continued)

	2018 \$000	2017 \$000	2016 \$000	2015 \$000	2014 \$000	2013 \$000	2012 \$000
<b>Abnormal items (after tax)</b>							
Impairment of carpet tile business assets	-	-	-	(9,132)	-	-	-
Impairment of fixed assets	-	-	(1,573)	(4,344)	-	-	-
Impairment of intangible assets	-	-	-	(5,432)	-	-	-
Derecognition of deferred tax asset	-	-	-	(6,771)	-	-	-
Restructuring costs	136	(4,542) <sup>1</sup>	(3,222) <sup>1</sup>	(711)	-	(4,113) <sup>2</sup>	(5,916) <sup>2</sup>
Releases of provisions made previously	-	-	-	-	-	519	-
Reversal of impairment of fixed assets	99	1,083	-	-	-	-	-
Gain on sale of property	-	-	2,035	-	-	-	-
Scour merger costs	(128)	(738)	(438)	(520)	-	-	-
Gain on merger and dilution of equity-accounted investee	-	3,929	-	-	-	-	-
<b>Total</b>	<b>\$107</b>	<b>\$(268)</b>	<b>\$(3,198)</b>	<b>\$(26,910)</b>	<b>-</b>	<b>\$(3,594)</b>	<b>\$(5,916)</b>

<sup>1</sup> Incurred as part of the Group's strategic plan to address its cost base, with the consolidation of its yarn spinning operations in Napier, Wanganui and Christchurch. The costs included employee termination benefits, employee support costs, costs to relocate plant and equipment and abnormal manufacturing costs and inefficiencies during the consolidation process, which included:

- consolidation of woollen yarn spinning operations (previously in Napier and Wanganui) to a single hub at the Napier plant;
- down-scaling of the semi-worsted yarn spinning operation in Wanganui;
- relocation of the felted yarn operation from Christchurch to Wanganui; and
- closure of the Christchurch plant.

<sup>2</sup> Incurred as a consequence of various business improvement plans initiated, with costs made up of employee termination benefits, employee support costs, costs to relocate plant and equipment and contract termination costs.

## Trend Statement (continued)

	2018	2017	2016	2015	2014	2013	2012
<b>Financial Ratios and Summary</b>							
<b>Use of Funds and Return on Investment</b>							
Return on average shareholders' equity (normalised)	5.7%	(2.7)%	9.3%	1.5%	6.2%	7.2%	4.5%
Basic earnings per ordinary share (normalised)	5.8c	(2.7)c	9.2c	1.7c	8.5c	9.7c	6.3c
<b>Financial Structure</b>							
Net tangible asset backing per ordinary share	\$1.02	\$0.95	\$0.98	\$0.93	\$1.24	\$1.26	\$1.22
Equity ratio	54.3%	48.9%	47.1%	39.1%	46.9%	47.8%	45.1%
Net interest-bearing debt : equity ratio	29:71	37:63	34:66	45:55	39:61	36:64	42:58
Net interest cover (normalised) (times)	2.4	1.5	4.4	1.5	2.5	3.0	2.4
<b>Return to Shareholders</b>							
Dividends paid per ordinary share (excluding supplementary)	-	-	-	-	7.0c	-	11.0c
Dividend imputation	-	-	-	-	100%	-	100%
Ordinary dividend cover (normalised) (times)	-	-	-	-	1.2	-	0.6
Supplementary dividends paid per ordinary share	-	-	-	-	1.24c	-	1.94c
<b>Share Price</b>							
30 June	\$0.62	\$0.35	\$0.76	\$0.36	\$1.33	\$1.70	\$1.52
52 week high	\$0.63	\$0.95	\$0.77	\$1.36	\$2.03	\$2.12	\$3.83
52 week low	\$0.27	\$0.33	\$0.35	\$0.31	\$1.33	\$1.45	\$1.41
<b>Market Capitalisation (\$000)</b>							
30 June	\$42,581	\$24,038	\$52,196	\$24,724	\$91,343	\$116,049	\$103,761
<b>Capital Expenditure and Depreciation (\$000)</b>							
Capital expenditure	\$1,622	\$2,123	\$2,076	\$2,564	\$2,494	\$1,907	\$2,457
Depreciation	\$3,561	\$3,251	\$3,352	\$5,862	\$5,849	\$6,328	\$6,738

## Trend Statement (continued)

### Glossary of financial terms

EBITDA	Earnings before interest, tax, depreciation and amortisation
EBIT	Earnings before interest and tax
EBITDA (normalised)	Earnings before abnormal costs, interest, tax, depreciation and amortisation
EBIT (normalised)	Earnings before abnormal costs, interest and tax
Net assets	Total assets less total liabilities

### Use of funds and Return on investment

Return on average shareholders' equity (normalised)	$\frac{\text{Profit/(Loss) after tax (normalised)}}{\text{Average shareholders' equity}}$
Basic earnings per ordinary share (normalised)	$\frac{\text{Profit/(Loss) after tax (normalised)}}{\text{Weighted average number of ordinary shares on issue during the year}}$

### Financial structure

Net tangible asset backing per ordinary share	$\frac{\text{Net assets less goodwill and other intangibles}}{\text{Number of ordinary shares on issue at balance date}}$
Equity ratio	$\frac{\text{Shareholders' equity}}{\text{Shareholders' equity and total liabilities}}$
Net interest-bearing debt : equity ratio	Interest-bearing debt less cash at bank : Shareholders' equity
Net interest cover (normalised)	$\frac{\text{EBIT (normalised) plus dividends received from equity-accounted investee grossed up for imputation}}{\text{Net interest expense}}$

### Return to shareholders

Ordinary dividend cover (normalised)	$\frac{\text{Profit/(Loss) after tax attributable to shareholders of the Company (normalised)}}{\text{Ordinary dividends paid}}$
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## Disclosure of Non-GAAP Financial Information

The Directors acknowledge that the Annual Report, including the Trend Statement from pages 72 to 75, contains financial information that is non-GAAP (Generally Accepted Accounting Practice) and therefore falls within the Financial Markets Authority's guidance note on "Disclosing non-GAAP financial information" issued in September 2012.

The Trend Statement has been prepared using the audited GAAP-compliant financial statements of the Group.

The Directors believe that the non-GAAP financial information contained within the Trend Statement (more particularly, the non-GAAP measures of financial performance such as "EBITDA (*normalised*)", "EBIT (*normalised*)", "Profit before income tax (*normalised*)" and "Profit after tax (*normalised*)" as well as the various other financial ratios that are based on normalised results – for example, earnings per share) provide useful information to investors regarding the performance of the Group because the calculations exclude items that are not normally expected to occur on a regular basis either by virtue of quantum or nature.

In arriving at this view, the Directors have also taken cognisance of the regular requests by users of the Group financial statements, including analysts and shareholders, regarding the nature and quantum of abnormal items within the GAAP-compliant results and the way analysts distinguish between GAAP and non-GAAP measures of profit.

The disclosure of the non-GAAP financial information is also consistent with how the financial information for the Group is reported internally, and reviewed by the Chief Executive Officer as its chief operating decision maker, and provides what the Directors and management believe gives a more meaningful insight into the underlying financial performance of the Group and a better understanding of how the Group is tracking after taking into account items of an abnormal nature, including items that are unlikely to recur or otherwise unusual in nature.

The Directors also note that because these items may include non-cash provisions or provisions that are uncertain both as to quantum and timing of cash flows, it would usually be more appropriate to be using alternative, yet consistent, non-GAAP measures of profit when determining dividends.

In collating the Trend Statement, the Directors have taken into account all of the requirements within the guidance note. More specifically, these include:

- outlining why the non-GAAP financial information is useful;
- ensuring that:
  - no undue prominence, emphasis or authority is given to any non-GAAP financial information;
  - non-GAAP financial information is appropriately labelled;
  - the calculation of non-GAAP financial information is clearly explained; and
  - a reconciliation between non-GAAP and GAAP financial information is provided (see below);
- applying a consistent approach from period to period and ensuring that comparatives are similarly adjusted for consistency;
- ensuring that non-GAAP financial information is unbiased and taking care when describing, or referring to, items as "abnormal"; and
- identifying the source of non-GAAP financial information.

## Disclosure of Non-GAAP Financial Information (continued)

### Reconciliation of GAAP-compliant to non GAAP-compliant measures of profit/loss after tax

	Year ended 30 June 2018			Year ended 30 June 2017		
	GAAP \$000	Adjustments \$000	Normalised \$000	GAAP \$000	Adjustments \$000	Normalised \$000
<b>Revenue</b>	<b>\$148,120</b>	<b>-</b>	<b>\$148,120</b>	<b>\$156,120</b>	<b>-</b>	<b>\$156,120</b>
EBITDA	10,324	(326)	9,998	(2,232)	4,804	2,572
Depreciation	(3,561)	-	(3,561)	(3,251)	-	(3,251)
<b>EBIT</b>	<b>6,763</b>	<b>(326)</b>	<b>6,437</b>	<b>(5,483)</b>	<b>4,804</b>	<b>(679)</b>
Net interest expense	(2,798)	-	(2,798)	(2,936)	-	(2,936)
Share of profit after tax of equity-accounted investees	1,291	128	1,419	59	738	797
Gain on dilution of equity-accounted investee	-	-	-	3,929	(3,929)	-
<b>Profit/(Loss) before tax</b>	<b>5,256</b>	<b>(198)</b>	<b>5,058</b>	<b>(4,431)</b>	<b>1,613</b>	<b>(2,818)</b>
Tax (expense)/benefit	(1,175)	91	(1,084)	2,307	(1,345)	962
<b>Profit/(Loss) after tax</b>	<b>\$4,081</b>	<b>(107)</b>	<b>3,974</b>	<b>\$(2,124)</b>	<b>268</b>	<b>(1,856)</b>
Abnormal net loss after tax		107	107		(268)	(268)
<b>Profit/(Loss) after tax (GAAP)</b>		<b>-</b>	<b>\$4,081</b>		<b>-</b>	<b>\$(2,124)</b>
<b>Analysis of abnormal items</b>	<b>Profit/(Loss) before tax \$000</b>	<b>Tax effect \$000</b>	<b>Profit/(Loss) after tax \$000</b>	<b>Profit/(Loss) before tax \$000</b>	<b>Tax effect \$000</b>	<b>Profit/(Loss) after tax \$000</b>
Restructuring costs	189	(53)	136	(6,309)	1,767	(4,542)
Reversal of impairment of fixed assets	137	(38)	99	1,505	(422)	1,083
Scour merger costs	(128)	-	(128)	(738)	-	(738)
Gain on merger and dilution of equity-accounted investee	-	-	-	3,929	-	3,929
	<b>\$198</b>	<b>\$(91)</b>	<b>\$107</b>	<b>\$(1,613)</b>	<b>\$1,345</b>	<b>\$(268)</b>

### Calculation of basic and diluted earnings per share under GAAP and non GAAP measures of profit/loss after tax

	GAAP-compliant reported profit/(loss) after tax	Reverse abnormal items (net of tax)	Non GAAP-compliant normalised profit/(loss) after tax
<b>Year ended 30 June 2018</b>			
Profit attributable to shareholders (\$000)	\$4,081	\$(107)	\$3,974
Weighted average number of ordinary shares	68,679,098		68,679,098
Earnings per share (basic and diluted)	5.9 cents		5.8 cents
<b>Year ended 30 June 2017</b>			
Loss attributable to shareholders (\$000)	\$(2,124)	\$268	\$(1,856)
Weighted average number of ordinary shares	68,679,098		68,679,098
Earnings per share (basic and diluted)	(3.1) cents		(2.7) cents





## Corporate Governance Statement

# Cavalier's Board of Directors (the Board) is responsible for and committed to maintaining the highest standards of corporate behaviour and responsibility and has adopted governance principles reflecting this.

The Board seeks to follow best practice recommendations for listed companies to the extent that is appropriate for the nature and complexity of Cavalier's operations.

The Board considers that the corporate governance practices it has adopted and followed during the year do not differ materially from those in the NZX Corporate Governance Code (the NZX Governance Code) and the Financial Market Authority's Corporate Governance in New Zealand – Principles and Guidelines (the FMA Governance Principles).

Cavalier's approach to governance is reported against the fundamental corporate governance principles and the underlying recommendations set out in the NZX Governance Code and the FMA Governance Principles.

### PRINCIPLE 1 - ETHICAL BEHAVIOUR

#### Code of Conduct

Cavalier expects its Directors, officers, employees and contractors to act legally, ethically and with integrity in a manner consistent with the Code of Conduct.

The Code of Conduct sets out the standard of conduct expected of Directors and employees and the Company's approach to stakeholders. It is supported by other policies and procedures including those that address continuous disclosures, confidentiality of information, conflicts of interest, reporting of concerns and share trading.

The Code of Conduct and other key policies relating to corporate governance can be found on the Company's website [www.cavcorp.co.nz](http://www.cavcorp.co.nz).

Cavalier has established internal procedures to monitor compliance with, and measures for dealing with breaches of, the Code of Conduct. A reporting of concerns procedure supports the reporting and investigation of breaches of the Code of Conduct and serious wrongdoing in or by Cavalier.

#### Conflicts of interest

The Board is conscious of its obligation to ensure that Directors and employees avoid conflicts of interest between their duty to Cavalier and their own interests. Guidance is provided in the constitution, Board charter and the Code of Conduct.

The Board reviews at every meeting the interest register in which relevant transactions and matters involving the Directors are recorded. It is expected that Directors are sensitive to actual and perceived conflicts of interest that may occur and have constant consideration of this issue.

The Directors' disclosure of interest can be found on pages 88 to 90.

#### Share trading

Directors and employees who are likely to have knowledge of, or access to, material information can only buy or sell Cavalier shares during permitted periods and with the written consent of the Board. They must not use their position of confidential knowledge of the Company or its business to engage in share trading for personal benefit or to provide benefit to any third party.

Trading in Cavalier shares while in possession of material information is strictly prohibited.

A regular review of the share register is conducted to ensure compliance with the Share Trading Policy.

## Corporate Governance Statement (continued)

### PRINCIPLE 2 – BOARD COMPOSITION AND PERFORMANCE

The Board comprises Directors who, collectively, have the balance of independence, skills, knowledge, experience and perspectives to meet and discharge the Board's responsibilities. Core competences and skills required include accounting and finance, law, retail, sales and marketing, health and safety, manufacturing and well-developed ability for critical and strategic analysis. A balance of longer-serving Directors with experience in the Company balanced with newer Directors who bring fresh perspective and insight is desirable. The Board encourages strong individual thinking and rigorous discussion and analysis when making decisions.

The profile of the Directors can be found on pages 18 and 19.

As at 30 June 2018, the Board comprised six Directors – Alan Clarke (Chairman), John Rae (Deputy Chairman), George Adams, Grant Biel, Sarah Haydon and Dianne Williams.

The Board has a formal charter, a copy of which is published on the Company's website [www.cavcorp.co.nz](http://www.cavcorp.co.nz), setting out the Board's purpose, responsibilities, composition and operation.

#### Director independence

Cavalier needs to have the required number of independent directors under the NZX Main Board Listing Rules.

To be an independent director, a Director must not be an executive officer of the Company or have a 'disqualifying relationship'.

A disqualifying relationship includes (but is not limited to):

- any direct or indirect relationship that could reasonably influence in a material way the Director's decisions, or being related (considered broadly) to a major shareholder; or
- having a relationship (other than the directorship itself) with the Company or being a substantial product holder of the Company by virtue of which the Director is likely to derive, in the current financial year of the Company, a substantial portion of his or her annual revenue from the Company (excluding dividends and other distributions payable to all shareholders).

George Adams, Alan Clarke, Sarah Haydon, John Rae and Dianne Williams are independent Directors of the Company as at 30 June 2018.

Grant Biel is not an independent Director because he is an associate of a substantial product holder in the Company.

#### Board role and responsibility

The primary role of the Board is to add long-term shareholder value, while acting in a manner that the Directors believe is in the best interests of the Company and having regard to the interests of its employees and other stakeholders.

In this regard, the Board directs and supervises the management of the business and affairs of the Company including, in particular:

- approving the Company's strategy, goals and budget and ensuring that plans are clearly established for achieving them;
- appointing the Chief Executive Officer (CEO), setting the CEO's terms of employment, reviewing the CEO's performance and, where necessary, terminating the CEO's employment with the Company;
- delegating authority to management to act and monitoring the performance of management, satisfying itself that the Company is achieving or otherwise taking corrective actions to achieve its stated objectives;
- establishing policies for strengthening the performance of the Company;
- deciding on whatever steps are necessary to protect the Company's financial position and its ability to meet its debt and other obligations when they fall due and ensuring that such steps are taken;
- ensuring the Company's financial statements are true and fair and otherwise conform with law;
- ensuring the Health and Safety Policy and Management Framework support delivery on the commitment to a goal of zero harm to employees and other people who may be affected by the Company's operations and within our sphere of influence; and
- ensuring the Company has appropriate risk management and regulatory compliance policies in place.

Directors are required to undertake appropriate ongoing training to remain current on how to best perform their duties as Directors and are expected to keep themselves abreast of changes and trends in the business and in the Company's environment and markets, including changes and trends in the economic, political, social and legal climate generally.

## Corporate Governance Statement (continued)

### PRINCIPLE 2 – BOARD COMPOSITION AND PERFORMANCE (continued)

#### Delegation

The Board delegates the day-to-day management of the Company to the CEO. The CEO in turn delegates authority to his direct reports and senior management. These authorisation levels are set out in the Delegated Authority Policy.

#### Induction and Board access to information and advice

New Directors are provided with an induction pack containing governance information, key policies and all relevant information necessary to prepare them for their role. New Directors also receive presentations by the CEO and senior management on the key issues facing Cavalier, its operations and the environment and markets in which it operates.

Directors have unrestricted access to Company information and briefings from senior management. Site visits provide the Directors with a better understanding of the business and its major health and safety risks and how they are managed.

Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense, with the approval of the Chairman.

#### Nomination and appointment of Directors

At least one third, or the number nearest to one third, of the total number of Directors (excluding any Director appointed by the Board in between Annual Meetings) retire by rotation at each Annual Meeting. The Directors to retire are those who have been longest in office since their last election or re-election or, where there are more than one of equal term, by agreement. Directors retiring by rotation are eligible for re-election at that meeting.

A Director appointed by the Board in between Annual Meetings holds office only until the next Annual Meeting, but is eligible for election at that meeting.

Shareholders may nominate persons for election to the Board at an Annual Meeting by giving notice in writing to the Company within the time notified by the Company each year.

The Nomination Committee identifies and nominates candidates to fill director vacancies for the approval of the Board.

New Directors are also required to enter into written agreements with the Company establishing the terms of their appointment and addressing, among other things, the Director's duties, health and safety, remuneration, disclosures of interest, independence, confidentiality and access, indemnity and insurance.

#### Evaluation of Director, Board and Committee performance

The Board, and the Board's committees, critically evaluate annually their own performance and the performance of the individual Directors.

The Board, and its committees, also review annually their own processes and procedures to ensure that they are not unduly complex and are designed to assist the Board and its committees in effectively fulfilling their roles.

## Corporate Governance Statement (continued)

### PRINCIPLE 2 – BOARD COMPOSITION AND PERFORMANCE (continued)

#### Attendance at meetings

The Board has regular scheduled meetings every year, but also meet as and when required to address any specific matters that may arise between scheduled meetings.

The attendance record of the Directors at Board, committee and shareholder meetings held during the year ended 30 June 2018 is as follows:

	Board	Audit Committee	Remuneration Committee	Nomination Committee <sup>4</sup>	Shareholder
<b>Total held</b>	<b>10</b>	<b>3</b>	<b>1</b>	<b>-</b>	<b>1</b>
<b>Attendance:</b>					
George Adams <sup>1</sup>	N/A	N/A	N/A	N/A	N/A
Grant Biel	10/10	3/3	1/1	-	1
Steve Bootten <sup>2</sup>	4/4	1/1	N/A	N/A	1
Alan Clarke <sup>3</sup>	6/6	2/2	1/1	-	N/A
Sarah Haydon	9/10	3/3	1/1	-	1
John Rae	10/10	3/3	1/1	-	1
Dianne Williams	10/10	3/3	1/1	-	1

<sup>1</sup> Appointed to the Board on 1 June 2018.

<sup>2</sup> Retired from the Board on 31 October 2017.

<sup>3</sup> Appointed to the Board on 1 November 2017.

<sup>4</sup> All matters that would normally be dealt with by the Committee during the year were dealt with by the whole Board at scheduled Board meetings.

#### Diversity and inclusion

The Company has a Diversity and Inclusion Policy, a copy of which is published on the Company's website [www.cavcorp.co.nz](http://www.cavcorp.co.nz).

The Company is committed to creating a culture of 'equality of opportunity' to drive business engagement and success and:

- sees the diversity of its work force as a key asset and contributor to improved business performance and decision making;
- does not discriminate based on age, race, gender, sexual orientation, ethnicity or any other non-performance related differentiating factor;
- treats its people fairly and respectfully; and
- promotes diversity of thought and action, and unbiasedly rewards capability and achievement.

The Board has established measurable objectives for determining the success of this policy and its 'equality of opportunity' intent covering the following:

- sharing and promotion of this policy with employees;
- a capability-based approach to recruitment of people from a diverse as possible range of candidates;
- facilitation of opportunities for diversity of thought and action from all levels of the organisation; and
- promotion of diversity and inclusion through company culture programmes and celebrations that bring employees with differing perspectives together.

The Company's reporting on its progress in achieving the Board's Diversity and Inclusion Policy objectives can be found on pages 16 and 17 and the gender composition of its Directors and officers on page 94.

## Corporate Governance Statement (continued)

### PRINCIPLE 3 – BOARD COMMITTEES

The Board has three standing committees as follows:

- Audit Committee;
- Remuneration Committee; and
- Nomination Committee.

The Board appoints the Chairman of each committee. Members are chosen for the skills, experience and other qualities that they bring to the relevant committees. Each committee operates under a charter approved by the Board.

A full description of the composition and duties of the Board's Audit, Remuneration and Nomination Committees is contained in the respective committee charters which can be found on the Company's website [www.cavcorp.co.nz](http://www.cavcorp.co.nz).

The Board utilises committees to enhance Board effectiveness in key areas, while retaining Board responsibility.

Committees established by the Board make recommendations to the Board on those matters falling within the scope of the relevant committee charter. They do not take action or make decisions unless specifically mandated by their charter or by prior Board authority to do so.

#### Audit Committee

The Audit Committee must be comprised solely of non-executive Directors. It must have at least three members, the majority of whom must be independent.

The Chairman must also be independent and must not be the Chairman of the Board. At least one member must have an accounting or financial background.

The objective of the Audit Committee is to recommend the principles and standards with respect to internal controls, accounting policies, external audit and the nature, scope, objectives and functions of internal audit to assist the Board in producing accurate financial statements in compliance with the appropriate legal requirements, listing rules and accounting standards.

The Audit Committee meets as and when required, with management, the external auditor and the internal auditors present as required. These meetings are to enable the Committee to review the work of each of these groups and to satisfy itself that they are discharging their respective responsibilities adequately. The Committee is also required to review the nature and extent of the other services provided by the external auditor and to confirm that the external auditor's independence has not been impaired. The external auditor has unrestricted access to the Audit Committee, and it is standard and regular practice for the Committee to meet with the external auditor in the absence of executives.

The members of the Audit Committee as at 30 June 2018 were Sarah Haydon (Chairman), George Adams, Grant Biel, Alan Clarke, John Rae and Dianne Williams.

Sarah Haydon has a background in finance and accounting and has held senior finance roles in a number of companies, including 10 years as Chief Financial Officer of OfficeMax New Zealand. Sarah Haydon is a Fellow of the Institute of Chartered Accountants of England and Wales.

George Adams also has a background in finance and accounting having previously held senior management and finance roles in large international companies, including 10 years as Managing Director of Coca-Cola Amatil New Zealand and Fiji and time as Finance Director of British Telecom Northern Ireland and Group Finance Director of Dublin-based bottling company Molino Beverages prior to moving to New Zealand in 2003. George Adams is a Fellow of the Institute of Chartered Accountants of Ireland.

Management attend Audit Committee meetings at the invitation of the Committee.

#### Remuneration Committee

The Remuneration Committee must comprise at least three non-executive Directors. The majority of the members of the Committee must be independent.

The objective of the Remuneration Committee is to assist the Board in discharging the Board's responsibilities in relation to the establishment of Group human resources policies and practices, including setting and review of Directors' remuneration and senior management objective setting, performance review and remuneration.

The Remuneration Committee meets as and when required.

## Corporate Governance Statement (continued)

### PRINCIPLE 3 – BOARD COMMITTEES (continued)

#### Remuneration Committee (continued)

In considering or approving the remuneration packages of senior executives, the Committee obtains advice from appropriately qualified professionals where required and has regard to best practice in the area of senior executive remuneration. In these ways, the Company is not only able to attract or retain suitably qualified executives, but also to align their interests with those of shareholders in a way that enables the attainment of shorter-term goals without compromising longer-term objectives.

The members of the Remuneration Committee as at 30 June 2018 were John Rae (Chairman), George Adams, Grant Biel, Alan Clarke, Sarah Haydon and Dianne Williams.

#### Nomination Committee

The Nomination Committee must comprise at least three non-executive Directors. The majority of the members of the Committee must be independent.

The objective of the Nomination Committee is to assist the Board in planning the Board's composition, evaluating the competencies, skills and experience required of prospective directors, identifying those prospective directors, establishing their degree of independence, developing succession plans and making recommendations to the Board accordingly.

The Nomination Committee meets as and when required.

The members of the Nomination Committee as at 30 June 2018 were Alan Clarke (Chairman), George Adams, Grant Biel, Sarah Haydon, John Rae and Dianne Williams.

#### Independent Takeover Committee

As the Company has a small Board, it is not envisaged that the Board would appoint an Independent Takeover Committee, upon a takeover offer being received, unless there are Directors who are interested in the takeover offer or certain Directors are unavailable to assist on the matter.

The Board has a Takeover Response Policy setting out the objectives of the Company's takeover response strategy and establishing the appropriate protocols to be followed in the event of a takeover offer for the Company, covering, among other things:

- structure of the takeover response team and roles of key groups in the team;
- the takeovers code process and timetable;
- steps to be taken on receipt of a takeover notice;
- communication between the Company and the bidder; and
- potential takeover response strategies.

### PRINCIPLE 4 – REPORTING AND DISCLOSURE

The Board is responsible for the timeliness, accuracy and completeness of all Company disclosures, including its results, financial reporting and all matters relating to its business activities that could have a material effect on the price of Cavalier shares if they were generally available to the market.

The Directors are also committed not only to preparing financial statements that comply with New Zealand Generally Accepted Accounting Practice and give a true and fair view of Cavalier's financial position as at balance date and of its operations and cash flows for the year ended on that date, but also to balanced, clear and objective financial reporting.

#### Timely and balanced disclosure

Cavalier is committed to promoting investor confidence by providing timely, accurate, complete and equal access to material information, both positive and negative, in accordance with the NZX Main Board Listing Rules. To achieve and maintain high standards of disclosures, Cavalier has adopted a Continuous Disclosure Policy, which is designed to ensure compliance with NZX continuous disclosure guidance note.

This policy, a copy of which is published on the Company's website [www.cavcorp.co.nz](http://www.cavcorp.co.nz), sets guidelines and outlines responsibilities to safeguard the Company against inadvertent breaches of continuous disclosure obligations.

## Corporate Governance Statement (continued)

### PRINCIPLE 4 – REPORTING AND DISCLOSURE (continued)

#### Financial reporting

The Audit Committee assists the Board in providing oversight of the quality and integrity of external financial reporting including the accuracy and completeness of financial statements. It reviews half year and annual financial statements and makes recommendations to the Board concerning internal controls, accounting policies, areas of significant estimation and judgement, compliance with New Zealand Generally Accepted Accounting Practice and New Zealand equivalents to International Financial Reporting Standards, NZX requirements and the results of the external audit.

Management accountability for the quality and integrity of Cavalier's financial reporting is reinforced by written representations to the Board about the accuracy and completeness of the financial statements and the reasonableness of the significant estimates and judgements made.

#### Non-financial reporting

Insight into Cavalier's assessment of its business, strategy, performance and its new strategic focus covering marketing, sales and people can be found on pages 4 to 17.

### PRINCIPLE 5 – REMUNERATION

The Board has a clear policy for setting remuneration of Directors and senior management at levels that are fair and reasonable to attract, reward and retain the skills, knowledge and experience required to enhance the Company's performance.

The Remuneration Committee assists the Board in discharging its responsibilities in relation to setting and review of Directors' remuneration and senior management objective setting, performance review and remuneration.

#### Directors' remuneration

Shareholders resolved at the November 2007 Annual Meeting of shareholders that the total remuneration to be paid to the non-executive Directors be fixed at a sum not exceeding \$350,000 per annum, such sum to be divided amongst them in such proportions and in such manner as they may determine.

The total remuneration paid to the Directors for the year ended 30 June 2018 was \$345,167. The remuneration of the Directors can be found on page 91.

The scale of fees payable to the Directors was last reviewed and approved by the Board on 22 January 2018, with the current scale of fees applying with effect from 1 January 2018 set out below:

Directors' fees	Per annum	Explanatory notes
Non-executive Chairman of the Board	\$112,000	Inclusive of time spent on Board committees and as Chairman of Nomination Committee
Non-executive Directors (including Deputy Chairman of the Board)	\$56,000	Inclusive of time spent on Board committees
Chairman of the Audit Committee	\$9,000	In recognition of additional time and responsibilities as Chairman of Audit Committee
Chairman of the Remuneration Committee	\$5,000	In recognition of additional time and responsibilities as Chairman of Remuneration Committee

The current scale of fees payable to the Directors can be compared with the previous one which came into effect on 1 July 2016 and set out below:

Directors' fees	Per annum	Explanatory notes
Non-executive Chairman of the Board	\$106,000	Inclusive of time spent on Board committees and as Chairman of Nomination Committee
Non-executive Directors (including Deputy Chairman of the Board)	\$53,000	Inclusive of time spent on Board committees
Chairman of the Audit Committee	\$8,000	In recognition of additional time and responsibilities as Chairman of Audit Committee
Chairman of the Remuneration Committee	\$5,000	In recognition of additional time and responsibilities as Chairman of Remuneration Committee

## Corporate Governance Statement (continued)

### PRINCIPLE 5 – REMUNERATION (continued)

#### Directors' remuneration (continued)

In approving the new scale of Directors' fees, the Board took cognisance of the need to:

- remunerate Directors at levels commensurate with the responsibilities placed on, and the performance commitments expected of, them;
- reflect the significant involvement required of the Directors to ensure the Company's performance continues to be sustained and improved;
- retain existing, and in the future to attract high-calibre, directors in an increasingly competitive market; and
- move Cavalier's Directors' fees closer to those in the PwC benchmark group in the June 2016 benchmarking of Directors' fees conducted by PwC for the Board.

#### CEO's remuneration

The remuneration of the CEO is set independently, and without any involvement of the CEO, on an arm's length commercial basis as recommended by the Remuneration Committee and approved by the Board.

The CEO's remuneration comprises a fixed base salary, fringe benefits and a variable short term bonus that is payable annually. Bonuses are paid against targets covering profitability and growth as well as strategy, health and safety and culture as agreed with the CEO at the commencement of the period.

The remuneration of the CEO can be analysed as follows:

Year ended 30 June	Base salary	Employer superannuation contributions	Other benefits	Fixed remuneration	Short term variable remuneration	Long-term variable remuneration	Total remuneration
2018	\$474,757	\$14,243	\$16,345	\$505,345	\$40,177	-	\$545,522
2017	\$474,757	\$14,243	\$15,100	\$504,100	-	-	\$504,100

### PRINCIPLE 6 – RISK MANAGEMENT

Cavalier is committed to the effective management of risk, which is fundamental to all of the Company's continued growth and profitability targets and outcomes.

The Company maintains a risk management framework for the identification, assessment, monitoring and management of risk and has in place, among other policies, a Treasury Policy and a Delegated Authority Policy to manage specific risks.

The Board is responsible for overseeing and approving the risk management framework and tolerance levels as well as ensuring that an effective assurance system is in place.

#### Health and safety

The Board also has a Health and Safety Policy, a copy of which is published on the Company's website [www.cavcorp.co.nz](http://www.cavcorp.co.nz). The policy provides the context, direction and framework within which all other health and safety materials are developed and is the bedrock of a proactive culture for managing operational risks.

The Board adopts a risk-based approach to health and safety risk management, while continuing to hold people at all levels and in all roles personally responsible and accountable for making health and safety an essential part of our business.

While the Board does not have a Health and Safety Committee, there is a Health and Safety Panel – comprising George Adams, as the Board's representative, the CEO and other senior management – that is charged with assisting the Board in addressing the key health and safety risks facing the organisation.

The Panel has identified as key risks falling objects and the operating of portable mobile equipment and vehicles and has put in place improvement plans and targets against which progress – executed within a cycle of continuous improvement – will be measured and regularly benchmarked to recognised external standards.



## Corporate Governance Statement (continued)

### PRINCIPLE 6 – RISK MANAGEMENT (continued)

#### Assurance

Cavalier operates an independent internal audit programme that provides objective assurance of the effectiveness of the internal control framework.

Internal audit assists the Board and the Audit Committee to accomplish their objectives by bringing a disciplined approach to evaluating and improving the effectiveness of risk management, internal controls and governance processes.

Internal audit adopts a risk-based assurance approach that is approved by the Board and has the autonomy to report significant issues directly to the Audit Committee or, if considered necessary, the Chairman of the Board.

### PRINCIPLE 7 – AUDITORS

The Board is responsible for ensuring the quality and independence of the external audit process and has adopted an External Audit Independence Policy, a copy of which is published on the Company's website [www.cavcorp.co.nz](http://www.cavcorp.co.nz).

The Audit Committee is responsible for considering and making recommendations to the Board regarding any issues relating to the independence, performance, appointment or termination of the external auditor.

The external auditor is prohibited from undertaking any work that compromises, or is seen to compromise, independence and objectivity.

The Audit Committee requires the external auditor to confirm annually that it has:

- remained independent of Cavalier at all times;
- complied with the provisions of all applicable laws and relevant professional guidance in respect of independence, integrity and objectivity; and
- considered its independence as auditor, and the objectivity of the audit partner and audit staff, and that there have been no breaches of independence policies.

Management is responsible for the day-to-day relationship with the external auditor, ensuring the provision of timely and accurate information and full access to Company records and personnel relevant to the audit.

Cavalier's external auditor also attends the Annual Meeting, and is available to answer questions relating to the conduct of the external audit and the preparation and content of the auditor's report.

### PRINCIPLE 8 – SHAREHOLDER RIGHTS AND RELATIONS

Cavalier respects the rights of shareholders, is focused on fostering constructive relationships with shareholders that encourage them to engage with the Company and values dialogue with institutional and private investors.

Cavalier is also committed to giving all shareholders comprehensive, timely and equal access to information about its activities and keeps shareholders informed through:

- periodic and continuous disclosure, including shareholder presentations, to NZX;
- half year and annual reports;
- the Annual Meeting and any other meetings of shareholders called to obtain approval for Board actions as appropriate; and
- the Company's website.

The Board encourages full participation of shareholders at Annual Meetings to ensure a high level of Director and management accountability and shareholder identification with Cavalier's strategies and goals.

In this regard, Cavalier seeks:

- to provide shareholders with ample notice of its Annual Meetings by requiring the Company to post notices of meeting on its website as soon as possible and at least 28 days prior to the meeting;
- to maximise shareholder participation by streaming the meeting online, thereby allowing shareholders who are unable to make it to the Annual Meeting in person to still have the opportunity to watch the Annual Meeting, vote on the resolutions before the meeting and ask questions.

The Board also encourages shareholders to opt to receive communications from the Company electronically, thereby ensuring that they get access to communications efficiently and in a timely manner.

Cavalier is committed to conducting the activities of the Company's business responsibly and sustainably by balancing its economic, environmental and social responsibilities and having regard to how its activities affect employees, contractors, communities and the environment in which it operates.

## Disclosures under the Companies Act 1993

Year ended 30 June 2018

### DIRECTORS

The Directors of the Company as at 30 June 2018 were:

George Adams  
Grant Biel  
Alan Clarke  
Sarah Haydon  
John Rae  
Dianne Williams

George Adams and Alan Clarke were appointed to the Board of Directors on 1 June 2018 and 1 November 2017 respectively. Steve Bootten retired from the Board on 31 October 2017.

### INTERESTS REGISTER

The Companies Act 1993 requires the Company to maintain an interests register in which are recorded the particulars of certain transactions and matters (e.g. use of company information, remuneration, indemnity and insurance and share dealing) involving the Directors. It further requires particulars of the entries in the interests register for the year to be disclosed in the Annual Report.

#### Use of company information

No notices were received from the Directors regarding the use of company information that would not otherwise have been available to them, except in their capacity as directors, during the year.

#### Remuneration

The scale of fees payable to the Directors with effect from 1 January 2018 was approved by the Board of Directors on 22 January 2018 and is set out on page 85.

#### Indemnity and insurance

The Board of Directors authorised, during the year, the Company's entry into deeds of indemnity, access and insurance with Alan Clarke and George Adams.

The Board of Directors also authorised, during the year, the renewal of the Company's directors' and officers' liability insurance policies covering the risks arising out of the acts or omissions of the Directors and employees of the Company and its subsidiaries to the extent normally covered by such policies. The total cost of these policies for the year ended 30 June 2018 was \$27,280 which was considered fair to the Company.

#### Share dealing

During the year, notices in relation to share dealing were received from:

Directors	Number of shares acquired/ (sold)	Average price per share	Date of notice	Registered holder
Grant Biel	100,000	\$0.29	31 August 2017	Rural Aviation (1963) Limited
Steve Bootten <sup>1</sup>	(25,000)	\$0.48	21 February 2018	Kitenga Investments Limited
Alan Clarke	100,000	\$0.50	6 March 2018	Alan William Clarke
	200,000	\$0.54	9 March 2018	Alan William Clarke

<sup>1</sup> Notice given by former Director pursuant to section 301 Financial Markets Conduct Act 2013.

## Disclosures under the Companies Act 1993 (continued)

Year ended 30 June 2018

### INTERESTS REGISTER (continued)

#### Share dealing (continued)

Directors' relevant interests in shares in the Company as at 30 June 2018 were:

<b>Grant Biel</b>		
Beneficial		-
Other		8,567,642
<b>Alan Clarke</b>		
Beneficial		300,000
Other		-
<b>Sarah Haydon</b>		
Beneficial		25,000
Other		-
<b>Dianne Williams</b>		
Beneficial		5,000
Other		-

#### Specific disclosures of interest

No specific disclosures of interest were received during the year.

#### General disclosures of interest

General disclosures of interest that were current as at 30 June 2018 were:

<b>George Adams</b>	Apollo Brands Limited	Director
	Apollo Foods Limited	Executive Chairman and shareholder
	The Apple Press Limited	Director
	Insightful Mobility Limited	Chairman and shareholder
	Mars Manufacturing Limited	Director
	Mix Limited	Chairman
	Mix Global Holdings Limited	Chairman
	Mix IP Limited	Director
	Nexus Foams Limited	Chairman
	Tegel Group Holdings Limited	Director
	Competenz	Director
<b>Grant Biel</b>	Auckland Air Charter Limited	Director
	Bay Cliffe Industries Limited	Director and shareholder
	Baycliffe Enterprises Limited	Director and shareholder
	Bondworth Carpets Limited	Director and shareholder
	Heli Harvest Limited	Director
	Heli Harvest (2012) Limited	Director
	Rural Aviation (1963) Limited	Director and shareholder
	Westburn Investments Limited	Director
<b>Alan Clarke</b>	nib nz Limited	Director
	nib nz Holdings Limited	Director
	Intergroup Limited	Chairman of Advisory Board
	Clarke Family Trust	Trustee and beneficiary
	Corder Family Trust	Trustee
	Jennifer Nelson Family Trust	Trustee
	Kempthorne Family Trust	Trustee
	Russell Holloway Family Trust	Trustee

## Disclosures under the Companies Act 1993 (continued)

Year ended 30 June 2018

### INTERESTS REGISTER (continued)

#### General disclosures of interest (continued)

<b>Sarah Haydon</b>	The Boardroom Practice Limited	Associate	
	The Co-operative Bank Limited	Deputy Chairman	
	The Institute of Geological and Nuclear Sciences Limited	Director	
	Ports of Auckland Limited	Director	
	Sarah Haydon Trust Company Limited	Director and shareholder	
	New Zealand Riding for the Disabled Association	Chairman	
	R&E Seelye Trust	Trustee	
<b>John Rae</b>	Abodo Limited	Chairman of Advisory Board	
	Activate Tairāwhiti Limited	Chairman	
	Corson Grain Limited	Director	
	Eastland Group Limited	Director	
	Eastland Network Limited	Director	
	Eastland Port Limited	Director	
	F J Hawkes & Co. Limited	Director and shareholder	
	Gisborne Airport Limited	Director	
	Gobble Limited	Director and shareholder as nominee	
	Jaffa Holdings Limited	Director and shareholder	
	Kingyo Foods Limited	Director and shareholder as nominee	
	The Lines Company Limited	Director	
	Ngāpuhi Asset Holding Company Limited	Director	
	Smart Environmental Limited	Chairman	
	Thos Corson Holdings Limited	Chairman	
	WET Gisborne Limited	Director	
		Watson and Son LP	Chairman
		The National Infrastructure Advisory Board	Chairman
	Provincial Growth Fund	Panel Member	
	JR Family Trust	Trustee	
<b>Dianne Williams</b>	Darden Limited	Director and shareholder	
	Darden Holdings Limited	Director and shareholder	
	New Netball Team Limited	Director	
	Northcote Rd 1 Holdings Limited	Director	
	Pulse Gp Limited	Director	
	Stepchange Consulting Limited	Director and shareholder	
	West Auckland Trust Services Limited	Director	
		Chartered Accountants Australia New Zealand	Director
		Netball Northern Zone (Incorporated Society)	Director
		Public Trust	Director

## Disclosures under the Companies Act 1993 (continued)

Year ended 30 June 2018

### DIRECTORS' REMUNERATION

The total remuneration and value of other benefits earned by each of the Directors of the Company for the year ended 30 June 2018 were:

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Other benefits	Total
George Adams <sup>1</sup>	\$4,667	-	-	-	-	\$4,667
Grant Biel	\$54,500	-	-	-	-	\$54,500
Stephen Bootten <sup>2</sup>	\$17,667	\$2,666	-	-	-	\$20,333
Alan Clarke <sup>3</sup>	\$50,833	-	\$2,083	-	-	\$52,916
Sarah Haydon	\$95,000	\$2,250	-	-	-	\$97,250
John Rae	\$54,500	\$3,584	\$2,917	-	-	\$61,001
Dianne Williams	\$54,500	-	-	-	-	\$54,500
<b>Total</b>	<b>\$331,667</b>	<b>\$8,500</b>	<b>\$5,000</b>	<b>-</b>	<b>-</b>	<b>\$345,167</b>

<sup>1</sup> Appointed to the Board on 1 June 2018.

<sup>2</sup> Retired from the Board on 31 October 2017.

<sup>3</sup> Appointed to the Board on 1 November 2017.

The current scale of fees payable to the Directors is set out on page 85.

### EMPLOYEES' REMUNERATION

The number of employees of the Company and its subsidiaries whose remuneration and value of other benefits for the year ended 30 June 2018 fall into the various brackets specified by the Companies Act 1993 is as follows:

Remuneration and value of other benefits (\$)	Number of employees	Remuneration and value of other benefits (\$)	Number of employees
100,000 - 109,999	19	240,000 - 249,999	-
110,000 - 119,999	11	250,000 - 259,999	-
120,000 - 129,999	6	260,000 - 269,999	-
130,000 - 139,999	2	270,000 - 279,999	1
140,000 - 149,999	1	280,000 - 289,999	1
150,000 - 159,999	5	290,000 - 299,999	-
160,000 - 169,999	3	300,000 - 309,999	-
170,000 - 179,999	2	310,000 - 319,999	-
180,000 - 189,999	2	320,000 - 329,999	-
190,000 - 199,999	-	330,000 - 339,999	1
200,000 - 209,999	1		
210,000 - 219,999	-	360,000 - 369,999	1
220,000 - 229,999	1	390,000 - 399,999	1
230,000 - 239,999	-	540,000 - 549,999	1
<b>Total number of employees</b>			<b>59</b>

## Disclosures under the Companies Act 1993 (continued)

Year ended 30 June 2018

### DONATIONS

Refer to page 40 (note 3e of the notes to the financial statements).

### AUDIT FEES

Refer to page 40 (note 3e of the notes to the financial statements).

### SUBSIDIARY COMPANY DIRECTORS

The following persons respectively held office as directors of subsidiary companies as at the end of the year:

<b>Subsidiaries</b>	<b>Directors</b>
Cavalier Bremworth Limited	Paul Alston
Cavalier Spinners Limited	
Radford Yarn Technologies Limited	
E Lichtenstein and Company Limited	
Elco Direct Limited	
Elcopac Limited	
Elcotex Limited	
Elcowool Limited	
e-Wool Limited	
Heron Distributors Limited	
Cavalier Bremworth (North America) Limited	
Cavalier Commercial Limited	
EnCasa Carpets Limited	
Knightsbridge Carpets Limited	
Microbial Technologies Limited	
Northern Prospecting Limited	
Norman Ellison Carpets Limited	
Carpet Distributors Limited	
Horizon Yarns Limited	
NEC Limited	
Cavalier Holdings (Australia) Pty. Limited	Paul Alston
Cavalier Bremworth Pty. Limited	Michael Richardson
Kimberley Carpets Pty. Limited	
Norman Ellison Carpets Pty. Limited	
Cavalier Bremworth (Australia) Limited	
Cavalier Commercial Pty. Limited	

No subsidiary company directors received, in their capacity as such, directors' fees or other benefits from the subsidiaries.

There were no entries in the interests register in respect of any of the subsidiary company directors. The remuneration and value of other benefits of these directors is disclosed under employees' remuneration on page 91.

## Disclosures under the New Zealand Exchange Main Board Listing Rules

As at 31 August 2018

### ANALYSIS OF SHAREHOLDINGS

	Number of Shareholders	%	Shares Held	%
<b>Size of shareholdings</b>				
Up to 199	99	2.89	8,242	0.01
200 – 499	141	4.12	48,163	0.07
500 – 999	239	6.98	166,670	0.24
1,000 – 1,999	582	17.00	803,914	1.17
2,000 – 4,999	937	27.37	2,875,204	4.19
5,000 – 9,999	604	17.64	4,024,341	5.86
10,000 – 49,999	673	19.66	13,102,281	19.08
50,000 – 99,999	75	2.19	4,897,891	7.13
Over 99,999	74	2.16	42,752,392	62.25
	<b>3,424</b>	<b>100.00</b>	<b>68,679,098</b>	<b>100.00</b>
<b>Location of shareholders</b>				
New Zealand	3,310	96.67	67,370,709	98.09
Overseas – Australia	65	1.90	937,033	1.36
– Others	49	1.43	371,356	0.54
	<b>3,424</b>	<b>100.00</b>	<b>68,679,098</b>	<b>100.00</b>

	Shares Held	%
<b>Top shareholders</b>		
Marama Trading Limited	9,610,718	13.99
Rural Aviation (1963) Limited	8,567,642	12.47
New Zealand Central Securities Depository Limited	5,529,825	8.05
FNZ Custodians Limited	1,460,605	2.13
Forsyth Barr Custodians Limited	1,278,440	1.86
J and D Sands Limited	1,000,000	1.46
Masfen Securities Limited	787,500	1.15
Percy Keith McFadzean	715,000	1.04
Ian David McIlraith	650,000	0.95
Graham James Munro and Zita Lillian Munro	540,000	0.79
Michael Lookman and 187 Bridge Trustees 53 Limited	500,000	0.73
James Ferguson Ring	450,000	0.66
Peter William Beasley and Anne Kathryn Beasley and Kevin Harborne	400,000	0.58
ASB Nominees Limited	373,000	0.54
Julian Hans Eriksen	361,610	0.53
JBWere (NZ) Nominees Limited	349,327	0.51
Alan William Clarke	300,000	0.44
F B Trustee Limited	300,000	0.44
Andrew John Fleck	300,000	0.44
Heatherfield Investments Limited	300,000	0.44
Nicolaas Johannes Kaptein	300,000	0.44
M A Janssen Limited	300,000	0.44
	<b>34,373,667</b>	<b>50.05</b>

## Disclosures under the New Zealand Exchange Main Board Listing Rules (continued)

As at 31 August 2018

### NEW ZEALAND CENTRAL SECURITIES DEPOSITORY LIMITED

New Zealand Central Securities Depository Limited provides a custodial depository service to offshore and institutional shareholders and does not have a beneficial interest in the shares registered in its name. The beneficial owners of the shares registered in its name as at 31 August 2018 were:

	Shares Held	%
Accident Compensation Corporation	4,393,787	6.40
JPMorgan Chase Bank NA NZ Branch – Segregated Clients A/c	735,008	1.07
HSBC Nominees (New Zealand) Limited	309,000	0.45
ANZ Custodial Services New Zealand Limited	66,580	0.10
Citibank Nominees (New Zealand) Limited	10,000	0.01
BNP Paribas Nominees (NZ) Limited	9,700	0.01
BNP Paribas Nominees (NZ) Limited	5,750	0.01
	<b>5,529,825</b>	<b>8.05</b>

### GENDER COMPOSITION

The following is a summary of gender composition within the Group:

	30 June 2018			30 June 2017		
	Male	Female	Total	Male	Female	Total
Directors	4/67%	2/33%	6/100%	3/60%	2/40%	5/100%
Officers <sup>1</sup>	6/75%	2/25%	8/100%	7/70%	3/30%	10/100%
Direct reports of officers	26/74%	9/26%	35/100%	27/71%	11/29%	38/100%

<sup>1</sup> Officer is a person, however designated, who is concerned or takes part in the management of the Company's business but excludes a person who does not report directly to the Board of Directors or report directly to a person who reports directly to the Board of Directors.

### SUMMARY OF NZX WAIVER GRANTED

The scale of Directors' fees adopted by the Board on 22 January 2018 as set out on page 85 placed the total Directors' fees payable outside the shareholder-approved total fee pool of \$350,000 when the Directors appointed George Adams to the Board with effect from 1 June 2018, leaving the Company in a position where it needed to seek:

- shareholder approval of the change to the maximum Directors' fees payable, either by special meeting or at the 2018 Annual Meeting of shareholders; or
- a waiver from NZX Main Board Listing Rule 3.5.1 to the extent shareholder approval is required, so that it could appoint George Adams in advance of the 2018 Annual Meeting without incurring the cost of holding a special meeting.

Accordingly, the Company sought and received a waiver from NZX which allowed the Company to appoint George Adams and to pay him for his services as a director in advance of the 2018 Annual Meeting.

Shareholder approval of an increase in the Directors' fee pool will now be obtained at the Annual Meeting.



## Disclosures under the Financial Markets Conduct Act 2013

As at 30 June 2018

### SUBSTANTIAL HOLDINGS

The substantial product holders in the Company in respect of whom notices have been received were:

	<b>Number of ordinary shares (being the only class of listed voting securities) where relevant interest exists</b>
Accident Compensation Corporation	3,720,000
A C Timpson Trust	9,610,718
Marama Trading Limited	9,610,718
G C W Biel	8,467,642
Rural Aviation (1963) Limited	8,467,642

The total number of ordinary shares, being the only class of listed voting securities in the Company, as at 30 June 2018 was 68,679,098.

The definition of the term “relevant interest” in the Financial Markets Conduct Act 2013 is extremely wide, and more than one relevant interest can exist in the same voting securities.

## Shareholder Information

### ANNUAL MEETING OF SHAREHOLDERS

Time and date	10 a.m., Tuesday, 30 October 2018
Venue	Level 4, South Stand, Eden Park, Reimers Avenue, Auckland

### CORPORATE CALENDAR

30 October 2018	2018 Annual Meeting of shareholders
31 December 2018	End of 2019 half year
Mid-February 2019	Announcement of 2019 half year result
Mid-March 2019	Release of 2019 half year report
30 June 2019	End of 2019 financial year
Late August 2019	Announcement of 2019 annual result
September 2019	Period for director nominations
End of September 2019	Release of 2019 Annual Report Release of 2019 Notice of Annual Meeting

## Corporate Directory

### BOARD OF DIRECTORS

**George Adams** DipFSA(Hons), FCA, CMInstD  
*Independent*

Member of Audit, Remuneration and Nomination Committees

**Grant Biel** B.E. (Mech.)  
*Non-independent*

Member of Audit, Remuneration and Nomination Committees

**Alan Clarke** B.Sc.(Hons), MBA, CFInstD  
*Independent*

Chairman of the Board of Directors  
Chairman of Nomination Committee  
Member of Audit and Remuneration Committees

**Sarah Haydon** B.Sc., FCA, CMInstD  
*Independent*

Chairman of Audit Committee  
Member of Remuneration and Nomination Committees

**John Rae** B.Com., LLB, CMInstD  
*Independent*

Deputy Chairman of the Board of Directors  
Chairman of Remuneration Committee  
Member of Audit and Nomination Committees

**Dianne Williams** B.Com., MBA, CMInstD  
*Independent*

Member of Audit, Remuneration and Nomination Committees

### CHIEF EXECUTIVE OFFICER

**Paul Alston** BBS, CA

### CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY

**Victor Tan** CA, FCIS

### FOUNDING SHAREHOLDER

The late **Anthony Charles Timpson** ONZM

### REGISTERED OFFICE

7 Grayson Avenue, Auckland 2104,  
P O Box 97-040, Auckland 2241.  
Telephone: 64-9-277 6000, Facsimile: 64-9-279 4756.

### SHARE REGISTRAR

Computershare Investor Services Limited  
Level 2, 159 Hurstmere Road, Auckland 0622,  
Private Bag 92119, Auckland 1142.  
Telephone: 64-9-488 8700, Facsimile: 64-9-488 8787, Investor Enquiries: 64-9-488 8777.

### AUDITORS

KPMG

### LEGAL ADVISORS

Russell McVeagh

### BANKERS

Bank of New Zealand

National Australia Bank Limited

## Corporate Directory (continued)

### CORPORATE

General Manager Communications, People and Culture	Lenska Papich
Group Financial Controller	Linda Arbuckle
Group Information Services Manager	Trevor Jones

### CARPET OPERATION

National Sales Manager New Zealand	Dean Chandler
General Manager Manufacturing	Craig Wallis
Group Product and Marketing Manager	Rochelle Flint
General Manager Australia	Michael Richardson

### WOOL OPERATION

General Manager Wool Acquisition	Shane Eades
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### WEBSITES

Corporate	<a href="http://www.cavcorp.co.nz">www.cavcorp.co.nz</a>
Carpet Operation	<a href="http://www.cavbrem.co.nz">www.cavbrem.co.nz</a> <a href="http://www.cavbrem.com.au">www.cavbrem.com.au</a> <a href="http://www.normanellison.co.nz">www.normanellison.co.nz</a> <a href="http://www.normanellison.com.au">www.normanellison.com.au</a>
Wool Operation	<a href="http://www.elcodirect.co.nz">www.elcodirect.co.nz</a>
Share Registrar	<a href="http://www.computershare.co.nz/investorcentre">www.computershare.co.nz/investorcentre</a>

