The natural choice.

CAVALIER CORPORATION

Annual Report 2019

This Annual Report is dated 27 September 2019 and is signed on behalf of the Board of Directors by:

Alan Clarke
Chairman

Paul Alston
Chief Executive Officer

CAVALIER BREMWORTH

NORMAN ELLISON CARPETS

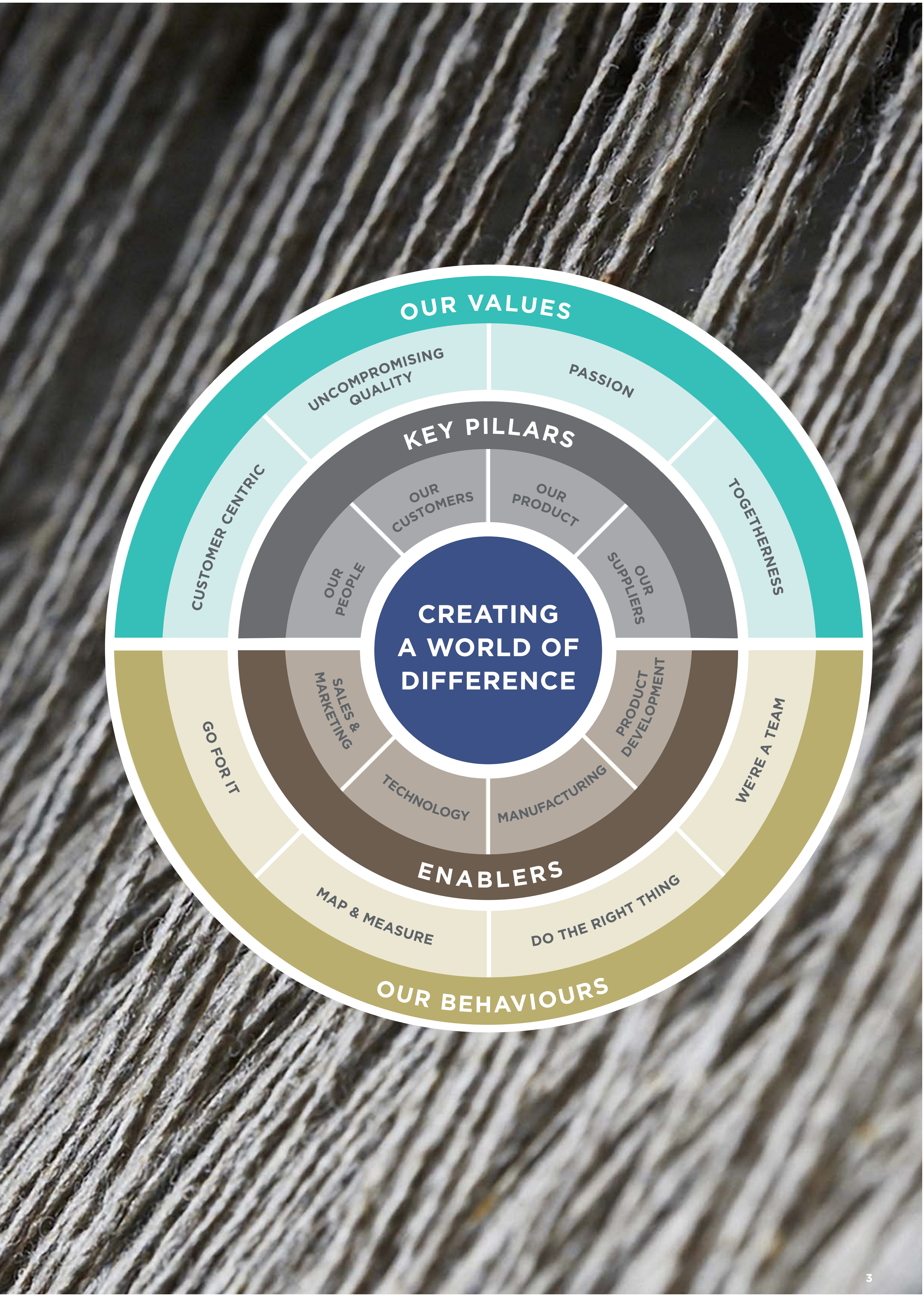
ELCODIRECT WOOL BUYERS

Cavalier Bremworth has a long-standing history of producing world-leading wool carpets. It’s what we’re known for. Premium quality carpet made from New Zealand wool, right here in New Zealand.

And this is where our focus will remain, creating and marketing a valuable natural product that is both sustainable and desirable, here and around the world. It’s good for our business and it’s good for you.

Creating a world of difference.

We are focussed on creating 'A World of Difference' in everything we do. This means we don't just sell carpets and rugs; our efforts have been borne from the desire to make a genuine difference, for our shareholders, our customers, our people, our suppliers, our communities and our environment. Not only through what we do, but how we do it.


OUR VALUES
UNCOMPROMISING QUALITY
PASSION
CUSTOMER CENTRIC
TOGETHERNESS
KEY PILLARS
OUR CUSTOMERS
OUR PRODUCT
OUR PEOPLE
OUR SUPPLIERS
CREATING A WORLD OF DIFFERENCE
SALES & MARKETING
PRODUCT DEVELOPMENT
TECHNOLOGY
MANUFACTURING
ENABLERS
GO FOR IT
WE'RE A TEAM
MAP & MEASURE
DO THE RIGHT THING
OUR BEHAVIOURS

The results for the year ended 30 June 2019 reflect the changing market dynamics, with sales of low margin synthetic carpets declining and an increase in high end wool carpet sales. We continued to move along the pathway we had set for ourselves in the previous year, strengthening our focus on wool, driving manufacturing and channel efficiencies and growing sales in key markets.

The results for FY19 were below our expectations, as the positive performance in the first half was offset by a decline in trading conditions in the second half of the year.

The reduction in revenue reflects a continuing soft market and challenging trading conditions. While sales of low margin synthetic carpets are declining, premium wool carpet sales are increasing as consumers become more aware of the environmental benefits and beauty of wool.

Pleasingly, demand for Cavalier's top end Bremworth Collection wool carpets continues to grow despite the challenging market conditions, and while volumes are small, these high quality, higher margin carpets provide a significant contribution to group profits. New Zealand revenue came under pressure from the decline in low margin synthetic carpets which affected volumes and margin. Separately, wool prices have continued to be impacted by decreased Chinese demand for strong wool, adversely affecting sales and margins for Cavalier's wool buying business, Elco Direct.

We are known for our design innovation and Cavalier's new rug offer is growing in popularity. A variety of new carpets have been developed, with some being launched in FY19 and a number being finalised for roll out in the next few months. We have over 1,000 retailer partners across Australia and New Zealand and increased investment has been put into rolling out our successful World of Difference instore display stands across the trade customer network, providing a unique retail experience.

Driving efficiencies is a focus and structural cost initiatives have been implemented in both Australia and New Zealand, with the positive impact of the Australian change management programme earlier this year now being seen. This has resulted in a more customer focused and agile sales team with growth opportunities identified.

In September 2018, we sold our 27.5% shareholding in the wool scouring business, Cavalier Wool Holdings Limited (CWH), and the associated property, releasing $13.4 million of cash in the process. The sale proceeds were used to significantly reduce debt and strengthen the balance sheet, enabling us to explore opportunities in our core business of manufacturing and marketing high end wool carpet solutions.

FINANCIAL RESULTS

For FY19, revenue was down 9% to $135.2m and net loss after tax (NLAT) was $(16.8)m.

The result included a $11.9m non-cash loss on the sale of Cavalier's interest in the wool scouring business and associated property as reported at the half year, as well as $6.8m in after tax impairments of goodwill and fixed assets. These write downs are non-cash and do not impact the underlying profitability of the Company.

Excluding these, Cavalier's normalised EBITDA was $7.1m and net profit after tax (NPAT) was $1.9m.

Recent valuations assess the worth of Cavalier's land and buildings at more than $30m and the Company had less than $18m in net bank debt at balance date. The Board is confident in Cavalier's financial sustainability and we have the support of our banking partner.

For further information on Cavalier's FY19 results, please view the FY19 Investor Presentation and Results Announcement on the website at **cavcorp.co.nz**

OPERATING ENVIRONMENT

Softening market and challenging trading conditions. Low margin synthetic carpet sales declining; high quality wool carpets increasing in demand. Continuing pressure on strong wool prices.

REVENUE

$135.2m

Impacted by challenging market conditions throughout the year. Drop in wool prices adversely affecting sales for Cavalier's wool buying business, Elco Direct.

NLAT

$16.8m

Includes $11.9m non-cash loss on sale of interest in CWH and property held by CWSA, as well as non-cash after tax impairments of goodwill and fixed assets of $6.8m.

NET DEBT

$17.8m

Significant reduction in debt with proceeds from sale of CWH used to offset debt.

EBITDA (normalised)

$7.1m

Stronger performance in 1H19 and lower costs, offset by reduced carpet sales and wool buying margins, compared with FY18.

NPAT (normalised)

$1.9m

In line with guidance. The Company continues to trade profitably, with lower FY19 profit due to the reduced revenue.

TRANSFORMATIONAL SHIFT AHEAD

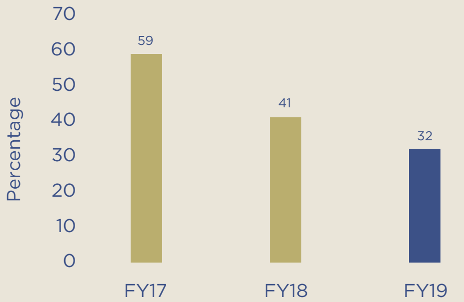
Building on Cavalier Bremworth's 50 years of history, innovation and in-depth knowledge of the carpet sector, to transform into a design-led wool focused company that is fit for the next 50 years.

FY20 OUTLOOK

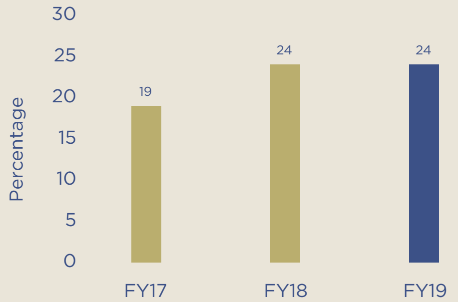
Cavalier is well positioned to capture demand from consumers seeking a natural, more sustainable, healthier alternative without compromising quality or style. Market conditions remain challenging. Continue to drive manufacturing efficiencies and grow key markets.

Normalised is a non-GAAP measure of financial performance and therefore falls within the Financial Markets Authority's guidance note on "Disclosing non-GAAP financial information". Normalised results are not audited and exclude items that are not expected to occur on a regular basis either by virtue of quantum or nature. Full commentary on the disclosure of non-GAAP financial information and a reconciliation from the non-GAAP financial information to the most directly comparable GAAP financial information, including that for the previous period, can be found on pages 78 and 79.

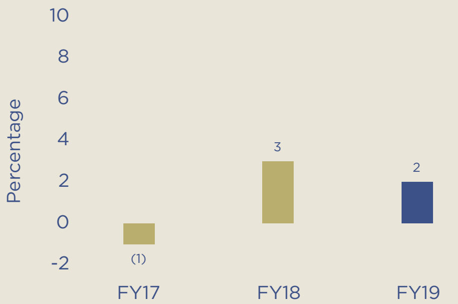
Gearing %



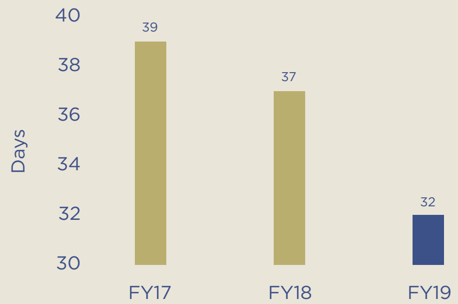
Gross profit %



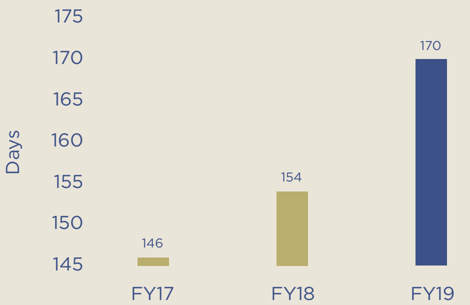
Return (normalised NPAT) on assets %



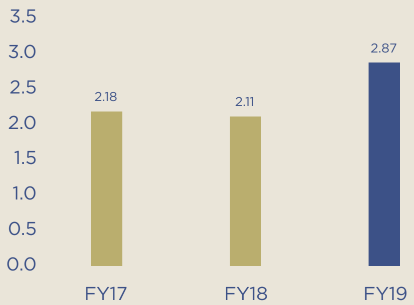
Days sales in receivables



Inventory turnover



Current ratio



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It's our heritage... and our future.

Alan Clarke
Chairman

Paul Alston
Chief Executive Officer

This year we wanted to focus our commentary on our vision for our Company and what the future holds for us. You can read about our progress and performance in FY19 on pages 4 to 6.

A TRANSFORMATIONAL SHIFT INTO A DESIGN-LED BUSINESS

Cavalier is at a defining moment in its history as we build on our heritage and revitalise the demand for wool carpets as a natural, more sustainable, healthier alternative to synthetic fibres.

We believe this will provide value not just for our people and our business, but also the New Zealand wool sector and of course, consumers, who will benefit from the addition of a beautiful, natural wool carpet in their home.

For the past 50 years, Cavalier has been considered a world leader in the manufacture of beautifully crafted carpets made from New Zealand wool. Then in the last decade, we saw a groundswell in demand for synthetic fibre carpets, as manufacturers poured millions of dollars into marketing and promoting synthetics to consumers.

In response to customer demand, we expanded our range to include synthetic yarn carpets, whilst retaining our values of quality and craftsmanship. This required investment into new manufacturing capabilities, training and marketing to create a presence in the highly competitive synthetic carpet sector.

However, we continued to hold firm to our belief that natural wool was the optimal choice for carpet design, innovation and overall performance. New product innovation continued with the ongoing launch of new ranges and styles of wool carpets and rugs to suit every home.

Now, more than a decade after cheaper synthetic carpets began to grow in popularity, we are seeing their demand decline as performance and longevity issues become apparent. Increased competition is also reducing margins, making it much more difficult to compete at this end of the market. Non-wool carpets, even at the higher end, continue to be a commodity with little yarn innovation, and it is our belief that only the big players who can produce massive volumes of these carpets will win at this game.

Consumers are also becoming more conscious of the environmental impact of petrochemical based products including synthetic textiles.

Wool is the natural alternative. It is biodegradable, 100% sustainable and renewable, suitable for recycling, removes carbon from the atmosphere and doesn't release microplastic pollution like synthetics. Not only that, wool is fire retardant, naturally resistant to stains, non-allergenic, offers a more luxurious look and feel and, as it's made from natural fibres, it's cooler in summer but warmer in winter. Demand for high end wool carpets is growing and sales of our premium Bremworth Collection are continuing to grow.

Our expertise in wool manufacturing and design spans half a century and our reputation for quality and innovation is well founded. We remain one of the few companies worldwide with the skill and expertise to create beautiful felted wool carpets, providing that unique, chunky look that many consumers desire.

We have been increasing our focus on wool over the past year and, going forward, this will accelerate as we transform into a design-led, wool focused business. We have enlisted the support of The New Zealand Merino Company (NZM), whose sales and marketing expertise helped create the hugely successful and valuable merino wool industry in New Zealand. As well as providing a wool supply channel, the collaboration will see NZM assisting as we identify and implement a change strategy to position Cavalier for the next 50 years.

This transformation will mean some organisational changes to our business. The work we have undertaken in previous years to consolidate our manufacturing operations will be of benefit as we move to this next stage in our evolution and increase our wool carpet production. Further rationalisation and changes will be required and there will be some short-term costs, however, we see this as an essential investment in our long term future.

The quality and craftsmanship of our wool carpets is undeniable and is recognised by customers around the world. We will revitalise the demand for wool carpets as a natural, more sustainable, healthier alternative to synthetic fibres and further deliver to our World of Difference vision.

More resources will be put into the marketing and promotion of our wool carpets, and along with this, we'll be introducing a new brand architecture that leverages the reputation and trust of the Cavalier name.

We'll be retaining the exclusivity of distribution for our high end Bremworth Collection range of the very finest wool carpets. The new Cavalier Bremworth Aspire Collection will also feature wool carpets with a point of difference, while maintaining a limited distribution. Finally, the Cavalier Bremworth Lifestyle collection will offer the widest variety of carpet styles at a more affordable price level and will be accessible from a larger number of retailers. This provides a greater opportunity for us to expand our distribution network, particularly in Australia.

New product development and innovation remains core to our business. From next year, we will be looking to introduce new products into the Lifestyle Collection every few months, with higher end carpets introduced at regular intervals into the Aspire and Bremworth Collection ranges.

Over 90% of New Zealand's wool clip is strong wool, from which carpets and other products are made. The price of strong wool has been in decline for the past three years due to reduced Chinese demand, pushing many sheep farmers to focus on other opportunities. It is our hope that by connecting consumers with Cavalier's wool product and growing sales for our wool carpets, demand for strong wool will strengthen, along with prices, and benefit wool growers across New Zealand. We are excited about our future.

"Rather than trying to provide the solution for all consumer demands across all types of carpets, we will focus on what we know and do best – high quality wool carpets."

WHAT DOES OUR FUTURE LOOK LIKE?

Creating a World of Difference is more than just a marketing tagline, it has become a mantra for our business and our people. It's about making a difference for our customers, our people, our shareholders and, at the end of the day, for discerning homeowners and commercial outfitters around the world.

Our aspirations for the Cavalier of the future, are to be recognised as:

> A world leader in beautiful wool carpets, made from New Zealand wool
> A pioneer in design and craftsmanship
> Delivering uncompromising quality
> Exceeding our customers' expectations
> Committed to operational and manufacturing excellence
> Creating a company culture that harnesses the pride, passion and expertise of our people
> Providing benefit to the New Zealand primary sector
> Protecting our environment for future generations

THE OUTLOOK FOR FY20

"Rather than being all things to all people, we will focus on what we know and do best – high quality wool carpets."

We are moving at pace to develop and implement our new business model and strategy, which we believe are essential to ensure the future of our business. The costs associated with this will be realised in FY20. In parallel, we will be reducing inventory levels, particularly of discontinued or end of line stock. We will use the proceeds to further reduce debt levels.

We will continue to promote the Cavalier brand and will be rolling out our new brand architecture, which will provide consumers with more access to Cavalier wool carpets. This month, we have a number of new product launches, of carpets crafted using unique techniques and colours. Textured loops are driving demand in the top end Bremworth Collection and we will soon be making a similar option available in our mid-range carpets.

Digital marketing will remain our primary marketing channel in FY20. In the last year, we have seen a 41% increase in Instagram followers, and we have a strong Facebook following. The Cavalier Bremworth website receives on average 18,000+ unique users per month in New Zealand and, in Australia, unique monthly site users climbed 166% over the last year to 16,000. Growing numbers of people are requesting our carpet samples through these online channels. We will continue to enhance the online user journey to make the Cavalier Bremworth experience a seamless and enjoyable one from online viewing through to sampling and purchase.

Earlier in 2019, we developed new advertising that focuses on our unique New Zealand wool story. Filmed in beautiful locations including Queenstown's Dart River, a Hawke's Bay farm and of course, one of our factories, the advertising brings attention to the people, the artistry and the superior benefits of our wool carpets. We'll be utilising our new advertising through our website, Facebook, Instagram and Google.

Another key focus will be on expanding our distribution networks, particularly in Australia, by leveraging our new Cavalier Bremworth Lifestyle collection. We have also received funding from NZTE to assist in building sales of our wool carpets in the USA.

Market conditions remain challenging and, while lower end synthetic carpet sales continue to decline, we expect our increased focus on our high quality wool carpets to drive sales in this higher margin category.

In FY19, approximately 50% of our sales volume was wool carpets, however, they contributed considerably more than this to company profitability. Our transformation into a wool focused, design-led business will not only be good for the environment and our customers, it will also be good for business and for our shareholders.

We look forward to updating shareholders on our progress at our Annual Meeting in November.

Alan Clarke.

Alan Clarke
Chairman

Paul Alston
Chief Executive Officer

Our future is with wool.

- > Sustainable and 100% renewable
- > Healthier alternative
- > Optimal carpet performance
- > Design innovation and craftsmanship
- > Increasing consumer demand for natural and sustainable products

▸ SHANE EADES, GM ELCO DIRECT

As General Manager of Cavalier's wool buying business, Elco Direct, Shane Eades started his career with much of his day spent in shearing sheds, his hands deep in soft bales of wool, and talking to farmers.

He now works mostly at the other end of the supply chain, negotiating the sale of wool lots to customers both in New Zealand and across the globe. However, he still loves to get out and about, chatting to farmers, some of whom he has known for decades.

Elco Direct is New Zealand's largest private buyer of wool with 65,000 bales of strong wool bought every year and then processed into saleable lots by a team of 23 employees. Covering the Central North Island, Elco Direct has built trusted relationships with sheep farmers throughout the region.

The business provides a guaranteed supply of strong wool for Cavalier (between 20% to 30% of requirements), ensuring that the grade of the wool meets Cavalier's strict quality requirements.

Shane has seen significant changes in the wool industry since he started working for Elco Direct 25 years ago as a branch manager in Raetihi. While demand for softer lamb's wool and merino for clothing is growing, strong wool prices have dropped dramatically in the past three years, primarily due to the introduction of synthetic fibres in textiles. He sees some farmers moving to sheep that are for meat only, or that only need shearing once a year. Land use is also changing, with the push towards planting trees.

But for those who move away from strong wool, there will be others who remain and will benefit from the more restricted supply, which should help drive an increase in future wool prices.

He says Cavalier's focus on wool carpets is a great thing, not just for the Company but for the New Zealand wool industry as a whole. With the majority of Elco's wool supply going offshore, he knows the value that his overseas customers place on the New Zealand story – our clean green image, the quality of our wool, and the natural benefits it offers. It's these attributes that are encapsulated in Cavalier's quality wool carpets and rugs and will be the focus for the Company going forward.

Our future lies in great design.

ZEPHYR + STONE

▸ ZEPHYR AND STONE, INTERIOR DESIGNER

A multi-faceted interior design business in Australia, Zephyr and Stone are as well known for their clever design solutions as they are for their aspirational and informative online content. A brand that is synonymous with great design, products and designs must be both functional and aesthetically beautiful to get their tick.

WHAT IS THE ROLE OF WOOL CARPET AND RUGS IN INTERIOR DESIGN?

Wool carpets and rugs add texture, pattern and colour to interiors, and without these crucial elements, spaces can feel cool, flat and unbalanced. Being a natural fibre, wool also adds a sense of luxury and warmth; giving designers scope to manipulate the feel and create the desired atmosphere within a space.

WHY SHOULD HOME OWNERS CONSIDER WOOL CARPETS?

There are so many factors to consider when choosing carpet or rugs for homes, with practicality and aesthetics being high on the list. When it comes to wool, we find it's a good all rounder. It's stain resistant, hypoallergenic, and fire resistant – all being high priorities for homes. It's available in a broad range of colours, heathered yarns and varied patterns to suit different home styles. The other big consideration for home owners is longevity and wear. This is where we believe wool carpets really outperform compared to many synthetic options. Wool wears well and has a long lifespan due to its ability to spring back, meaning it will keep looking fabulous for years to come. Finally, the fact it's 100% sustainable, biodegradable, and requires a fraction of the energy for production compared to many synthetic options, makes wool the environmentally friendly choice too.

WHAT DO YOU LIKE ABOUT CAVALIER BREMWORTH CARPETS AND RUGS?

For us, specifying Cavalier Bremworth is an easy choice. Having installed the carpets and rugs in numerous projects, as well as our own homes, we've always been impressed with the quality and durability, and love the feeling of luxury it adds underfoot.

Working with Cavalier Bremworth is also easy and enjoyable. We work with the same team and are supported by individuals who are familiar with our style and always available to answer questions. We're regularly updated when new ranges and colours are released and feel the Cavalier Bremworth brand is responsive to the market and trends, ensuring a diverse range that is broad and current. The wide price points also means we can find an option for every budget, and a style to suit all tastes. Being made in New Zealand using quality New Zealand wool also adds to their appeal, and we feel confident specifying them for our clients.

WHAT TRENDS ARE YOU SEEING IN THE MARKET?

The move towards warmer hues, natural finishes and colour palettes is definitely on the rise in interiors. This is evident in flooring choices, with warmer, earthy and textural options gaining popularity. Timber floors are shifting from pale oaks towards warmer brown tones, and tiles that mimic natural stone are here to stay.

We believe the ethos of quality over quantity is gaining ground too, as individuals more consciously consider the cost on the environment of cheaper, short term options, and are instead making purchasing choices based on longevity and sustainability. This should see a rise in popularity of products that will stand the test of time, including wool carpets and quality floor coverings.

"For us, specifying Cavalier Bremworth is an easy choice. Having installed the carpets and rugs in numerous projects, as well as our own homes, we've always been impressed with the quality and durability, and love the feeling of luxury it adds underfoot."

Our future will be created with our people.

Our people have always been and remain an essential part of our story. As we have grown, our workforce has changed to reflect our increasingly diversified and multicultural communities.

Our team is made up of people from a multitude of cultures, ages and gender across our New Zealand and Australian operations. What they all have in common is their passion and pride for Cavalier and their desire to ensure Cavalier's future success. We believe deeply in equality of opportunity. In line with this, we provide training and career development opportunities and are investing more in communication and engagement initiatives across our organisation.

We are proud of our people and their expertise and knowledge are highly valued and a key ingredient in our success.

Ian McKenzie

Mele Leaaemanu

> "Being involved in each step as the carpet is made, from start to finish, makes me feel so proud because I know we are all creating something special for customers to put in their homes and be happy with."

▶ IAN MCKENZIE, FELTER

Cavalier continues to lead the way in felted yarn technology, a process that locks woollen fibres together, creating stronger, chunkier textured carpets with intricate designs.

Felting is a relatively new manufacturing capability for Cavalier and long-time employee, Ian McKenzie, was eager to find out as much as possible about the process when it was first introduced to the Whanganui plant.

"I wanted to understand the how and why of felting so I asked lots of questions to help me understand what's important and what we can do to make Cavalier's felted yarns the best they can be."

Ian started working for Cavalier 33 years ago and, "having done just about every job there is", his background in yarn making is considerable. Now described by his colleagues as a 'felting guru', Ian is a process operator and works on the day shift, processing the wool, quality checking and testing, maintaining equipment and performing other numerous tasks to keep the felting machines running. He also makes the tubes that the wool yarn is fed through, an essential part of the felting process with up to 100 new tubes required each week.

The Whanganui plant runs 24 hours a day, five days a week. Ian takes pride in his work and says he loves seeing how their work is incorporated into new carpets and rugs. Naturally, Ian has Cavalier carpets in his own home and says they look as good now as they did when they were first laid 10 years ago.

▶ MELE LEAAEMANU, SUPERVISOR

More than 14 years ago and straight out of school, Mele Leaaemanu accepted her first job at Cavalier in the winding department. Now she's a Production Supervisor, responsible for the day to day control of the Day shift. She's worked across most areas in the Auckland factory including maintenance, winding, product development and tufting.

She says there are countless reasons why she loves working at Cavalier, but the family orientated work culture would have to be the best. In addition, watching staff hold themselves and others accountable for their actions in the hopes of creating a safe work environment is amazing.

Mele is currently being sponsored by Cavalier to participate in a 12 month Leadership & Development programme. She says she's learning new leadership skills and the course is helping her understand the importance of communication. "With open communication, staff feel more included, more secure and happy to participate. That all helps build a work environment where everyone feels like family."

An advocate for Cavalier carpets, Mele says that "they are the best".

Our future will benefit future generations.

Cavalier is a business that grew out of the friendship and partnership of two men, Grant Biel, who remains a director on the Board today, and Tony Timpson. Together, they set up a carpet factory in a small tin shed in Wiri in Auckland in the 1970s before creating the iconic Cavalier Bremworth brand in 1987.

Even back then social responsibility was important, with a focus on staff, shareholders and suppliers. Cavalier was one of the first companies in New Zealand to pay women at equal rates to men and to allow women to work on the nightshift – something that was frowned upon at the time. Women continue to play an important role and contribute greatly to the Company. Add to this the natural environmental benefits of wool and Cavalier was already well positioned as a sustainable business, well before the term became part of the business lexicon.

Today, Cavalier's people, shareholders, suppliers and its focus on natural wool carpets remain at the core of the business's philosophy.

Wool is a miracle fibre and offers many environmental and performance benefits – its 100% renewable and biodegradable; wool fibres naturally help to regulate humidity which means homes feel fresh and dry; it acts as a form of thermal insulation; is non-allergenic, fire resistant, naturally resistant to stains and easy to clean.

Responsible procurement including farming practices, animal welfare and our relationships with farmers are important to us, as are the protection of resources such as water and carbon emissions.

The farming of wool can help restore and enhance the land with grazing of sheep helping to improve soil quality and the ability of the land to absorb and retain water. Sheep are usually grazed on land that is unsuitable for food crops and therefore do not displace the planting of food crops.

Wool is a short-term store of natural, renewable carbon, with up to 50% of the weight of wool being pure carbon. While the carbon is stored in wool and thus isolated, there is less carbon in the atmosphere.

On the flip side, we recognise that our manufacturing and processing can come at a cost to the environment and are continually looking at ways to reduce the impact.

Cavalier Bremworth was the first to gain an internationally recognised eco-label across the wool range in 2000. In 2006, we were awarded Environmental Choice NZ accreditation, shortly followed by the equivalent certification in Australia from Good Environmental Choice Australia (GECA).

Today, our Cavalier Bremworth carpets carry an independent environmental grading from the Australian Carpet Classification Scheme - ACCS ECS which demonstrates our commitment to environmental best practice standards for our carpet production.

While our social and environmental responsibilities have always been a part of our ethos, this year we are starting the journey towards a more formal measuring and monitoring of key areas within our business. We will update shareholders on these at the end of FY20.

> “Responsible procurement including farming practices, animal welfare and our relationships with farmers are important to us, as are the protection of resources such as water and carbon emissions.”

Board of Directors.

T H G (George) Adams

DipFSA(Hons), FCA, CMInstD

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

He was appointed Deputy Chairman of the Board in April 2019 and Chairman of the Board's Audit Committee in October 2018. George is also a member of the Board's 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 Apollo Foods Limited, Insightful Mobility Limited, Mix Limited, Netlogix Group Holdings Limited, The Business Leaders Health and Safety Forum and the Work Related Health Advisory Board, as well as a director of Tegel Group Holdings Limited, Rubicon Limited and Competenz.

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 business and held the position of executive Director from July 1984 to September 1995.

His other directorships include Auckland Air Charter Limited, Heli Harvest Limited, Rural Aviation (1963) 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 27 years. He has held responsibilities as CEO and Managing Director over that time, formulating and implementing 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.

J M (John) Rae
B.Com., LLB, CMInstD

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

He is 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 Tairawhiti Limited, Oha Honey GP Limited, Smart Environmental Limited and Thos Corson Holdings Limited. He is also a director of Corson Grain Limited, the Eastland Group of companies, Ngapuhi 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) and West Auckland Trust Services Limited.

Management Team.

Paul Alston
Chief Executive Officer

Paul is an experienced senior executive who joined Cavalier in 2013 as CFO, before taking on the CEO role in 2015. He has oversight of all strategy and operations of Cavalier group. Paul has both New Zealand and international experience having worked for investment banks in London and Europe, as well as ENZA and Turners & Growers in New Zealand. He has significant experience in transformational change within organisations. Paul is a Chartered Accountant and holds a Bachelor of Business Studies.

Victor Tan
Chief Financial Officer and Company Secretary

Victor is a long standing member of the Cavalier team, having joined in 1984 just after the Company listed on the NZSE. He worked in various finance roles within the Group before being appointed CFO and Company Secretary in 2004. Following a three year hiatus from the CFO role, he was reappointed in December 2017. Victor is a Chartered Accountant and a Fellow of the Institute of Chartered Secretaries and Administrators (FCIS).

Shane Eades
GM Elco Direct

Shane started his career in the wool industry, before joining the business which became Elco Direct, in 1994. He has worked across the industry as a branch manager, wool buyer and within a wool scouring business. He moved to his current position with Elco Direct in 2017 and has responsibility for negotiating the sale of wool lots to customers both in New Zealand and across the globe. Shane has strong, long standing relationships with wool growers and remains involved in all aspects of the business. He holds qualifications in Wool and Wool Technology.

Dean Chandler
GM Sales New Zealand

Dean joined Cavalier in 2004, working for the Norman Ellison Carpets business for nine years before moving to a role with Cavalier Bremworth. As GM Sales New Zealand, Dean is responsible for leading the strategic direction within major channel partners, managing the development of a high performing sales team and training. He has over 20 years' experience in the flooring market, across residential and commercial segments as well as retail, and has built strong relationships with Cavalier's key channels. Dean holds a BCA in Commercial Law and Management.

Linda Arbuckle
Group Financial Controller

Linda joined the Cavalier family in 2004, as an accountant with Norman Ellison Carpets. In 2012, she moved to her current role as Group Financial Controller for Cavalier and is now responsible for the New Zealand and Australian finance divisions. Linda is a Chartered Accountant and has more than 20 years' experience in accounting for manufacturing companies.

Craig Wallis
GM Manufacturing

Craig joined Cavalier in October 2015 as GM Manufacturing. His career has been mostly spent in large scale manufacturing companies across varied industries as well as in logistics. Craig's role involves responsibility for Cavalier's three manufacturing sites, as well as the Distribution, Planning/Procurement, Samples Manufacturing and Customer Services functions. His strengths lie in continuous improvement, culture change and developing teams and people. Craig has qualifications in Engineering and Production.

Trevor Jones
Group Information Technology Manager

Trevor joined Cavalier in 2013, bringing with him extensive experience in developing and implementing manufacturing companies' digital strategies. He previously held similar roles with other iconic New Zealand and international companies and specialises in Enterprise Systems, project management and industry 4.0. Trevor holds a Bachelor of Commerce IT Hons and has undertaken other post-graduate qualifications.

Rochelle Flint
GM Marketing and International Operations

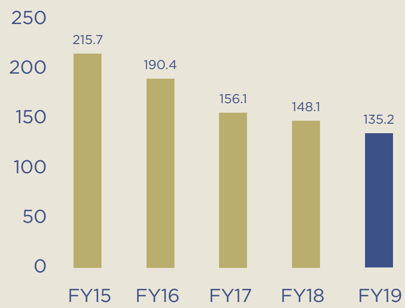
Rochelle joined Cavalier in 2013 and has over 17 years' experience in the flooring industry in a diverse range of roles from sales, key account management and marketing through to product development. She has also spent considerable time in the Australian market. She was appointed to her current role in April this year and has responsibility for Group product development and marketing as well as overseeing all of Cavalier's international markets, including Australia. Rochelle holds a Bachelor of Business Marketing & Management.

Dr Kirstine Hulse
GM Health and Safety

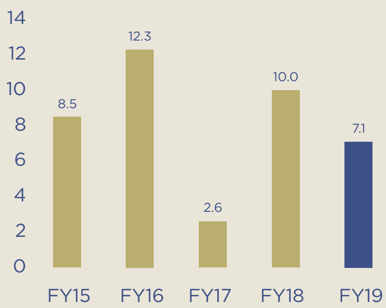
Kirstine joined Cavalier in July 2019 and has over 15 years' experience in a diverse range of roles in high risk industries. She has particular expertise in process optimisation and integration of health & safety, environmental and product quality into everyday operations, as well as adopting digital innovation into health and safety. Kirstine is responsible for the strategic direction of health & safety for Cavalier. She holds a Bachelor of Chemical & Materials Engineering (Hons) and a Doctor of Philosophy in process engineering from the University of Auckland.

The past five years have seen the Company transforming as we responded to changing market conditions and consumer demands. Cavalier is now stronger, more efficient and better aligned to our markets. We have set our strategic direction with a clear focus on wool, building on our heritage and our proven expertise. While there is still more to do, we are optimistic and excited about what the future holds for our Company.

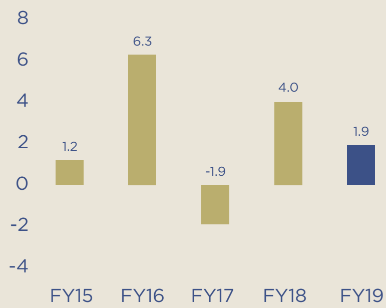
Revenue
$ millions



Normalised EBITDA
$ millions



Normalised NPAT/NLAT
$ millions



FY15

> Completion of organisational review

FY16

> Sale of loss-making carpet tile operation

> Sale of Australian property

> Consolidation of manufacturing operations and reorganised the business

> Repositioned Cavalier Bremworth brand

FY17

> Completion of restructuring: more costly and time consuming than expected and impacted results

> Notable drop in wool price

FY18

> Turnaround year with more efficient structure

> New strategic focus on high end carpets

> Recovery from impact of restructuring

FY19

> Strengthen focus on high quality, higher margin wool carpets

> Sale of wool scouring business and restructure of Australian operations

> Tightening market conditions

Normalised is a non-GAAP measure of financial performance and therefore falls within the Financial Markets Authority's guidance note on "Disclosing non-GAAP financial information". Normalised results are not audited and exclude items that are not expected to occur on a regular basis either by virtue of quantum or nature. Full commentary on the disclosure of non-GAAP financial information and a reconciliation from the non-GAAP financial information to the most directly comparable GAAP financial information, including that for the previous period, can be found on pages 78 and 79.

	2019 $000	2018 $000	2017 $000	2016 $000	2015 $000	2014 $000	2013 $000
Financial Performance							
Operating revenue	$135,234	$148,120	$156,120	$190,371	$215,728	$200,642	$201,739
EBITDA (normalised)	7,076	9,998	2,572	12,275	8,517	14,609	12,142
EBIT (normalised)	3,597	6,437	(679)	8,923	2,655	8,760	5,814
Profit/(Loss) before income tax (normalised)	2,451	5,058	(2,818)	8,219	741	7,320	7,087
Profit/(Loss) after tax (normalised)	1,879	3,974	(1,856)	6,313	1,195	5,790	6,624
Abnormal costs (after tax)	(18,659)	107	(268)	(3,198)	(26,910)	–	(3,594)
(Loss)/Profit after tax attributable to shareholders of the Company (GAAP)	(16,780)	4,081	(2,124)	3,115	(25,715)	5,790	3,030
Ordinary dividends paid	–	–	–	–	–	(4,785)	–
Financial Position							
Shareholders' equity	54,989	72,222	67,890	69,361	66,184	92,959	93,918
Loans and borrowings	20,500	31,500	41,500	37,700	56,767	61,220	59,216
Fixed assets	30,164	35,142	37,123	36,820	47,910	63,900	68,932
Goodwill and other intangibles	–	2,362	2,362	2,362	2,362	7,794	7,794
Cash at bank	2,724	2,111	1,255	1,200	2,834	2,375	5,932
Return on average shareholders' equity (normalised)	3.0%	5.7%	(2.7)%	9.3%	1.5%	6.2%	7.2%
Basic earnings per ordinary share (normalised)	2.7c	5.8c	(2.7)c	9.2c	1.7c	8.5c	9.7c
Net tangible asset backing per ordinary share	$0.72	$0.94	$0.87	$0.92	$0.91	$1.19	$1.22

Normalised is a non-GAAP measure of financial performance and therefore falls within the Financial Markets Authority's guidance note on "Disclosing non-GAAP financial information". Normalised results are not audited and exclude items that are not expected to occur on a regular basis either by virtue of quantum or nature. Full commentary on the disclosure of non-GAAP financial information and a reconciliation from the non-GAAP financial information to the most directly comparable GAAP financial information, including that for the previous period, can be found on pages 78 and 79.

Financial Statements

For the year ended 30 June 2019

CAVALIER
CORPORATION

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 followed.

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 33 to 77, the Group financial statements for the year ended 30 June 2019.

These financial statements were authorised for issue by the Directors on 26 August 2019 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 W Clarke
Chairman of the Board of Directors

T H G Adams
Chairman of the Audit Committee

TO THE SHAREHOLDERS OF CAVALIER CORPORATION LIMITED

Report on the audit of 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 33 to 77:

i. present fairly in all material respects the Group's financial position as at 30 June 2019 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 2019;

– the consolidated income statement, statements of other 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.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to the Going concern section in Note 2 of the consolidated financial statements, which indicates there is a material uncertainty concerning the Group's ability to achieve financial forecasts and generate sufficient cash flows to ensure the Group will be able to comply with its financial covenants over the term of the facility agreement and maintain the Group's ongoing liquidity.

We evaluated management's forecasts, projected compliance with its debt obligations and ability to maintain liquidity by performing the following procedures:

– Reviewed terms of the Group's revised facility agreement dated 28 June 2019.

– 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.
- Considered other possible outcomes in relation to the key assumptions and using these performed a sensitivity analysis of the Group's forecast.
- Assessed the adequacy of related disclosures in the financial statements against the requirements of the financial reporting standards.

As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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.

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. Except for the matter described in the material uncertainty related to going concern, 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.

The key audit matter	How the matter was addressed in our audit
Impairment of non-current assets	
Refer to Notes 5a and 5c to the Financial Statements. As at 30 June 2019, prior to any adjustment for impairment, the carrying amount of property, plant and equipment ('PP&E') and goodwill relating to the Carpets cash generating unit ('CGU') was $34,630,000 and $2,362,000, respectively. The Group's market capitalisation of $21,977,000 was significantly below the carrying value of its net assets of $61,764,000 (pre-impairment) as at 30 June 2019. This disparity was an indicator of 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 that non-current assets allocated to the Carpets CGU were impaired by $8,491,000. As a result, management have fully impaired the carrying value of goodwill, and impaired plant and equipment by $6,129,000. Property has not been impaired as its fair value as determined by an independent valuer exceeds its carrying value. As disclosed in Note 5a and 5c, in assessing whether the non-current assets allocated to the Carpets CGU of the Group are impaired, the Group uses a Discounted Cash Flow ('DCF') model. 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. > We cross referenced the outcome of the DCF impairment model against the Group's market capitalisation and breakup value of net assets. > 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. Our procedures used a variety of judgements and assumptions which indicated a range of possible outcomes. The impairment charged was within that range.

Valuation of inventory

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. During the year there was a deterioration in the Group's inventory turnover ratio.

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 ongoing 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.

> Performed a detailed inventory turnover analysis and considered whether any excess quantities of inventory are on hand.

> Reviewed and tested underlying sales and inventory cost reports.

We used the information from the above procedures to calculate our own provision for inventory obsolescence. The provision recorded was materially consistent with our own calculation.

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 the 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.

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.

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.

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.

KPMG
Auckland

26 August 2019

INCOME STATEMENT
For the year ended 30 June 2019

	Note	2019 $000	2018 $000
Revenue	3c	135,234	148,120
Cost of sales		(102,378)	(111,917)
Gross profit		**32,856**	**36,203**
Other income and gains	3d	41	77
Distribution expenses		(22,486)	(23,016)
Administration expenses	3e	(6,814)	(6,737)
Restructuring costs		–	189
Impairment of fixed assets	5a	(6,129)	(90)
Impairment of goodwill	5c	(2,362)	–
Reversal of impairment of fixed assets	5a	–	137
Results from operating activities		**(4,894)**	**6,763**
Net finance costs	3g	(1,790)	(2,798)
Share of profit after tax of equity-accounted investees	8a	644	1,291
Loss on sale of interest in, and property held by, equity-accounted investees	8a	(11,884)	–
(Loss)/Profit before income tax		**(17,924)**	**5,256**
Income tax benefit/(expense)	3h	1,144	(1,175)
(Loss)/Profit after tax for the year		**$(16,780)**	**$4,081**
Basic and diluted (loss)/earnings per share (cents)	3b	**(24.4)**	**5.9**

This statement is to be read in conjunction with the notes on pages 40 to 77.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2019

	Note	2019 $000	2018 $000
(Loss)/Profit after tax for the year		**(16,780)**	**4,081**
Other comprehensive income that may be reclassified subsequently to profit or loss			
Effective portion of changes in fair value of cash flow hedges		229	785
Net change in fair value of cash flow hedges transferred to profit or loss		(536)	(300)
Income tax on changes in fair value of cash flow hedges	3h	86	(136)
Share of fair value of cash flow hedges (net of income tax) of equity-accounted investee	8a	72	(97)
Foreign currency translation differences for foreign operations		–	(1)
		(149)	**251**
Other comprehensive income not reclassified subsequently to profit or loss		**–**	**–**
Other comprehensive income for the year, net of income tax		**(149)**	**251**
Total comprehensive income for the year		**$(16,929)**	**$4,332**

This statement is to be read in conjunction with the notes on pages 40 to 77.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2019

	Note	Share Capital $000	Cash Flow Hedging Reserve $000	Foreign Currency Translation Reserve $000	Retained Earnings $000	Total Equity $000
Total equity at 1 July 2018		$21,846	$(70)	$(1,420)	$51,866	$72,222
Change in accounting policy	2	–	–	–	(304)	(304)
Total equity at 1 July 2018 after adjusting for impact of change in accounting policy		21,846	(70)	(1,420)	51,562	$71,918
Total comprehensive income for the year		–	–	–	(16,780)	(16,780)
Loss after tax						
Other comprehensive income that may be reclassified subsequently to profit or loss						
Changes in fair value of cash flow hedges (net of income tax)		–	(221)	–	–	(221)
Share of fair value of cash flow hedges (net of income tax) of equity-accounted investee	8a	–	72	–	–	72
		–	**(149)**	**–**	**–**	**(149)**
Other comprehensive income not reclassified subsequently to profit or loss		–	–	–	–	–
Total other comprehensive income		**–**	**(149)**	**–**	**–**	**(149)**
Total comprehensive income for the year		**–**	**(149)**	**–**	**(16,780)**	**(16,929)**
Transactions with owners, recorded directly in equity		–	–	–	–	–
Total equity at 30 June 2019		**$21,846**	**$(219)**	**$(1,420)**	**$34,782**	**$54,989**

This statement is to be read in conjunction with the notes on pages 40 to 77.

STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 30 June 2019

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

This statement is to be read in conjunction with the notes on pages 40 to 77.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Note	2019 $000	2018 $000
ASSETS			
Property, plant and equipment	5a	30,164	35,142
Goodwill	5c	–	2,362
Investment in equity-accounted investees	8a	–	24,544
Deferred tax asset	3h	5,456	4,971
Total non-current assets		**35,620**	**67,019**
Cash and cash equivalents	6a	2,724	2,111
Trade receivables, other receivables and prepayments	6b	12,344	15,582
Inventories	6c	47,678	47,321
Derivative financial instruments	7	653	971
Income tax receivable		315	–
Total current assets		**63,714**	**65,985**
Total assets		**$99,334**	**$133,004**
EQUITY			
Share capital	4b	21,846	21,846
Cash flow hedging reserve	4b	(219)	(70)
Foreign currency translation reserve	4b	(1,420)	(1,420)
Retained earnings		34,782	51,866
Total equity		**54,989**	**72,222**
LIABILITIES			
Loans and borrowings	4c	20,500	27,500
Employee benefits	8c	903	911
Provisions	8b	715	1,118
Total non-current liabilities		**22,118**	**29,529**
Loans and borrowings	4c	–	4,000
Trade payables and accruals	6d	17,014	19,490
Provisions	8b	699	2,214
Employee entitlements		3,856	4,076
Deferred income		9	47
Derivative financial instruments	7	649	593
Income tax payable		–	833
Total current liabilities		**22,227**	**31,253**
Total liabilities		**44,345**	**60,782**
Total equity and liabilities		**$99,334**	**$133,004**

This statement is to be read in conjunction with the notes on pages 40 to 77.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2019

	Note	2019 $000	2018 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		135,700	149,448
Cash paid to suppliers and employees		(130,611)	(135,587)
		5,089	**13,861**
Dividends received		2	1
Other receipts		4	4
GST refunded		14	665
Interest paid		(1,918)	(2,773)
Income tax (paid)/refunded		(285)	385
Net cash flow from operating activities		**2,906**	**12,143**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		110	161
Acquisition of property, plant and equipment	5a	(4,705)	(1,622)
Proceeds from sale of interest in, and property held by, equity-accounted investees	8a	10,593	–
Dividends received from equity-accounted investees	8a	2,783	140
Net cash flow from investing activities		**8,781**	**(1,321)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Movements in bank borrowings	4c	(11,000)	(10,000)
Net cash flow from financing activities		**(11,000)**	**(10,000)**
Net increase in cash and cash equivalents		**687**	**822**
Cash and cash equivalents at beginning of the year		2,111	1,255
Effect of exchange rate changes on cash		(74)	34
Cash and cash equivalents at end of the year		**$2,724**	**$2,111**

This statement is to be read in conjunction with the notes on pages 40 to 77.

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

	2019 $000	2018 $000
(Loss)/Profit after tax for the year	**(16,780)**	**4,081**
Add/(Deduct) non-cash items:		
Depreciation	3,479	3,561
Impairment of fixed assets	6,129	90
Impairment of goodwill	2,362	–
Reversal of impairment of fixed assets	–	(137)
Share of profit of equity-accounted investees	(644)	(1,291)
Loss on sale of interest in, and property held by, equity-accounted investees	11,884	–
Deferred tax benefit	(399)	425
Employee benefits	(228)	58
Deferred income	(37)	(38)
Provisions	(1,918)	(974)
Net gain on sale of property, plant and equipment	(35)	(72)
Net (gain)/loss on foreign currency balance	74	(34)
Changes in working capital items:		
Trade and other receivables	511	1,679
Inventories	1,531	3,314
Income tax payable/receivable	(1,030)	1,134
Trade payables and accruals	(2,060)	635
Derivative financial instruments	67	(288)
Net cash flow from operating activities	**$2,906**	**$12,143**

This statement is to be read in conjunction with the notes on pages 40 to 77.

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 2019.

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 sales and manufacturing.

All Group subsidiaries are wholly-owned.

The Group had a 27.5% interest in commission woolscourer, Cavalier Wool Holdings Limited ("CWH"). It also has a 50% interest in property-owning entity, CWS Assets Limited ("CWSA"). The Group sold its interest in CWH, and CWSA sold the property that it held, on 30 September 2018.

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, except for 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.

During the year ended 30 June 2019, the Group encountered challenging trading conditions and had difficulties achieving its forecast sales and profitability targets, resulting in the Group renegotiating its EBITDA and inventory bank covenants in December 2018 to better reflect the conditions prevailing at the time. The Group further renegotiated its banking covenants on 28 June 2019 as part of the extension of its funding facilities to 1 September 2020.

For the year to June 2019, the Group made a loss after tax of $16,780,000 which included a non-cash loss on the disposal of its 27.5% interest in, and property held by, equity-accounted investees of $11,884,000 and impairment of goodwill and plant and equipment of $6,775,000 after tax. Carpet sales revenue decreased by 9%, on carpet sales volume 12% lower, during the year.

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

Going concern (continued)

The June 2019 extension of the funding facilities established covenants, with compliance dependent on the Group achieving an increase in carpet sales volumes and margins compared with the previous year.

The Group's ability to comply with the Bank's financial covenants, as disclosed 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 the issuance of the Group's financial statements is important to determining the appropriateness of the going concern basis of accounting.

Management forecasts the Group's financial performance, cash flows and financial position as part of its management and monitoring of the Group's operations, including ensuring that the Group will be able to comply with its financial covenants and debt repayment obligations over the term of the facility. In preparing these financial forecasts, the following assumptions have been made:

(i) an increase in carpet sales volumes and woollen carpet pricing of 9% and 4% respectively, in comparison with the financial year ended 30 June 2019;

(ii) NZD:AUD rate of 0.9300, after considering hedged positions;

(iii) operating performance of the Group's manufacturing plants consistent with that for the financial year ended 30 June 2019;

(iv) wool price, scoured and delivered, of $4.08/kg; and

(v) a 2% reduction in inventory.

The Board of Directors ("Board") notes that these financial forecasts are particularly sensitive to changes in sales volumes and margins. Keeping all other assumptions constant, the Group would likely breach its financial covenants if the Group was unable to achieve an increase in sales volumes of 4% or, alternatively, an increase in sales price compared with the financial year ended 30 June 2019.

A decrease in sales volumes by 7% and failing to achieve a sales price increase would likely result in the Group ceasing to generate positive cash flows from operations.

As a consequence, the Board believes there is material uncertainty concerning the Group's ability to achieve its financial forecasts which may cast significant doubt on the Group's ability to comply with the Bank's financial covenants and continue as a going concern.

Should the Group not achieve its financial forecasts and meet its debt obligations, the Group may not be able to continue as a going concern and realise the value in its assets and discharge its liabilities in the normal course of business.

The Board has implemented a number of initiatives to address this uncertainty including:

(i) plans to grow carpet sales by focusing on in-store presence, supply chain improvements and on-going product development and range refreshment;

(ii) initiatives to reduce the cost base; and

(iii) appointment of a sub-committee of the Board to oversee the implementation of the strategy to grow carpet sales.

Additionally, the Board notes, after taking into consideration the 7 August 2019 valuation of the Group's Auckland property that was carried out by CBRE, that the fair value of the property on commercial sale and leaseback terms would be sufficient to settle the Group's debt facility should the need arise.

The Board considers the Group to be a going concern and believes that the Group will be able to meet its contractual obligations as further disclosed at note 4c (Loans and borrowings) and note 7 (Risks and financial instruments and risks) to the financial statements.

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

Significant accounting policies, estimates and judgements

The preparation of financial statements requires management to make judgements, estimations 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 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 2019 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 and changes in accounting policies

There have been no changes in the accounting policies adopted in the preparation of the financial statements except as a consequence of the Group's adoption of NZ IFRS 9 *Financial Instruments* (NZ IFRS 9) and NZ IFRS 15 *Revenue from Contracts with Customers* (NZ IFRS 15) during the year.

Impact of the adoption of NZ IFRS 9

Effective 1 July 2018, the Group applied NZ IFRS 9 for its accounting of financial instruments, which included the adoption of the expected loss model, as opposed to the incurred loss model under the old standard, for the assessment of trade and other receivables for impairment. Under the new standard, the Group assesses impairment of trade and other receivables on a forward-looking basis, taking into account not only past events and current conditions, but also forecast of future economic conditions.

It has been determined that the impact of the new standard on the assessment of trade and other receivables for impairment is minimal.

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

New and amended accounting standards adopted (continued)

Impact of the adoption of NZ IFRS 9 (continued)

From 1 July 2018, the Group classifies its financial assets and financial liabilities in the following measurement categories: those to be measured subsequently at fair value (either through other comprehensive income ('OCI"), or through profit or loss), and those to be measured at amortised cost.

The classification and measurement of financial instruments have resulted in trade and other receivables and cash and cash equivalents being reclassified as amortised cost (previously loans and receivables) in note 7 (Risks and Financial Instruments) to the financial statements. Derivative financial instruments that are in cash flow hedge relationships are measured at fair value through other comprehensive income where the hedges are effective. Derivative financial instruments that are not in a cash flow hedge relationship or where the hedges are ineffective are measured at fair value through profit or loss. All other financial instruments (including cash, trade and other receivables, trade payables and bank borrowings) are measured at amortised cost.

The Group elected to apply the cumulative effect method, with no restatement of comparative period amounts, in applying NZ IFRS 9. The cumulative effect of applying the new standard is minimal, with no adjustment to the opening balance of retained earnings recognised in the Statement of Changes in Equity required as a consequence.

Impact of the adoption of NZ IFRS 15

Effective 1 July 2018, the Group also applied NZ IFRS 15 for its accounting of revenue from contracts with customers. Based on the five-step assessment performed by the Group pursuant to NZ IFRS 15, the impact of the new standard is minimal. All of the revenue earned by the Group is derived from the satisfaction of a single performance obligation for each contract, which can be for the sale of carpet, carpet yarn or wool. This revenue has historically been recognised at the time there is the transfer of the risks and rewards of ownership of the products sold to the customer. It has been determined that revenue is now recognised when the customer obtains control of the products sold, typically on the earlier of payment or delivery.

It has also been determined that there are:

- no material changes to the accounting for rebates, discounts or any other variable consideration under NZ IFRS 15; and
- no financing components within the Group's sales arrangements.

The new accounting policy on revenue is disclosed in note 3c (Revenue) to the financial statements.

The Group also elected to apply the cumulative effect method, with no restatement of comparative period amounts, in applying NZ IFRS 15. The cumulative effect of applying the new standard is dealt with as an adjustment to the opening balance of retained earnings recognised in the Statement of Changes in Equity.

The Group's revenue recognition policy remains largely the same with the exception that revenue is now recognised when the customer obtains control of the products sold, typically on the earlier of payment or delivery.

The adoption of NZ IFRS 15 has impacted the timing of when some revenue is recognised, resulting in the following adjustments to opening retained earnings.

	$000
Retained earnings as at 1 July 2018 before NZ IFRS 15 adjustments	51,866
Change in revenue	(2,371)
Change in cost of sales	1,949
Change in income tax expense	118
Retained earnings as at 1 July 2018 after NZ IFRS 15 adjustments	**$51,562**

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

New and amended accounting standards adopted (continued)

Impact of the adoption of NZ IFRS 15 (continued)

The table below shows the effect of the adoption of NZ IFRS 15 on 1 July 2018 on the Condensed Consolidated Statement of Financial Position:

	As previously reported $000	NZ IFRS 15 reclassifications $000	Restated $000
Assets			
Trade receivables, other receivables and prepayments	15,582	(2,727)	12,855
Inventories	47,321	1,889	49,210
Total impact on assets	$62,903	$(838)	$62,065
Liabilities			
Trade payables and accruals	19,490	(416)	19,074
Income tax payable	833	(118)	715
Total impact on liabilities	$20,323	$(534)	$19,789
Retained earnings	**$51,866**	**$(304)**	**$51,562**

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 sales and manufacturing; 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 year 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.

	2019 $000	2018 $000
Revenue		
New Zealand	78,316	84,482
Australia	52,640	57,878
Rest of the world	4,278	5,760
	$135,234	**$148,120**

	As at 30 June 2019 $000	As at 30 June 2018 $000
Non-current assets		
New Zealand	34,955	66,522
Australia	665	497
	$35,620	**$67,019**

Major customers

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

3. FINANCIAL PERFORMANCE (continued)

3a. Segment performance (continued)

	Carpets		Wool Acquisition		Total	
	2019 $000	2018 $000	2019 $000	2018 $000	2019 $000	2018 $000
External revenue	113,059	123,724	22,175	24,396	135,234	148,120
Inter-segment revenue	–	–	3,277	3,069	3,277	3,069
Total revenue	**$113,059**	**$123,724**	**$25,452**	**$27,465**	**138,511**	**151,189**
Elimination of inter-segment revenue					(3,277)	(3,069)
Consolidated revenue					**$135,234**	**$148,120**
Segment result before depreciation, restructuring related expenses and impairment	7,721	10,318	928	1,411	8,649	11,729
Depreciation	(3,339)	(3,445)	(140)	(116)	(3,479)	(3,561)
Segment result before restructuring and impairment	**4,382**	**6,873**	**788**	**1,295**	**5,170**	**8,168**
Restructuring costs	–	189	–	–	–	189
Impairment of fixed assets	(6,129)	(90)	–	–	(6,129)	(90)
Impairment of goodwill	(2,362)	–			(2,362)	
Reversal of impairment of fixed assets	–	137	–	–	–	137
Segment result after restructuring and impairment	**(4,109)**	**7,109**	**788**	**1,295**	**(3,321)**	**8,404**
Elimination of inter-segment profits					(30)	(66)
Unallocated corporate costs					(1,543)	(1,575)
Results from operating activities					**(4,894)**	**6,763**
Net finance costs					(1,790)	(2,798)
Share of profit after tax of equity-accounted investees					644	1,291
Loss on sale of interest in, and property held by, equity-accounted investees					(11,884)	–
(Loss)/Profit before income tax					**(17,924)**	**5,256**
Income tax benefit/(expense)					1,144	(1,175)
(Loss)/Profit after tax for the year					**$(16,780)**	**$4,081**

3. FINANCIAL PERFORMANCE (continued)

3a. Segment performance (continued)

	Carpets		Wool Acquisition		Total	
	2019 $000	2018 $000	2019 $000	2018 $000	2019 $000	2018 $000
Reportable segment assets	96,300	104,665	3,034	3,795	99,334	108,460
Investment in equity-accounted investees					–	24,544
Total assets					**$99,334**	**$133,004**
Capital expenditure	4,328	1,392	377	230	**$4,705**	**$1,622**
Reportable segment liabilities	21,496	26,122	2,349	3,160	23,845	29,282
Unallocated liabilities					20,500	31,500
Total liabilities					**$44,345**	**$60,782**
Employee numbers						
Operations	435	441	24	27	459	468
Unallocated					3	5
Total employee numbers					**462**	**473**

3b. Earnings per share

Basic and diluted (loss)/earnings per share (EPS)

	2019	2018
(Loss)/Profit after tax attributable to shareholders of the Company ($000)	(16,780)	4,081
Weighted average number of ordinary shares outstanding	68,679,098	68,679,098
Basic and diluted EPS (cents)	**(24.4)**	**5.9**

3. FINANCIAL PERFORMANCE (continued)

3c. Revenue

	2019 $000	2018 $000
Sales of goods		
Carpet	111,412	121,682
Wool	22,175	24,396
Carpet yarn	876	1,933
	134,463	**148,011**
Provision of installation services	771	109
Total revenue	**$135,234**	**$148,120**

Sale of goods

Revenue is recognised when or as performance obligations are satisfied by transferring control of the products sold to the customer at the transaction price specified in the contract. Control typically transfers to the customer on the earlier of payment for, or delivery of, the product. The transaction price includes all amounts which the Group expects to be entitled to, net of goods and services tax and other indirect taxes, expected rebates and discounts. Where applicable, rebates and/or discounts are included within the consideration using an estimation typically based on the most likely method and are only recognised to the extent that it is highly probable that a significant reversal will not occur.

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

	2019 $000	2018 $000
Rentals received	4	4
Dividends received	2	1
Net gain on sale of property, plant and equipment	35	72
Total other income and gains	**$41**	**$77**

3e. Administration expenses

The following items of expenditure are included in administration expenses:

	2019 $000	2018 $000
Donations	**$15**	**$25**
Fees paid and payable to KPMG for:		
Audit of financial statements	168	179
Tax services	30	23
Other services	6	5
Total fees paid and payable to KPMG	**$204**	**$207**

Tax services were in respect of transfer pricing and review of income tax returns, and other services were in respect of scrutineering work at the Annual Meeting of shareholders.

3. FINANCIAL PERFORMANCE (continued)

3f. Personnel expenses

	2019 $000	2018 $000
Directors' fees	387	345
Wages, salaries, bonuses and holiday pay	32,694	33,227
Employee termination benefits	552	322
Employee benefits	2,692	2,901
Decrease in liability for retiring allowances and long service leave	(8)	(101)
Total personnel expenses	**$36,317**	**$36,694**

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

	2019 $000	2018 $000
Interest income	2	36
Interest expense	(1,792)	(2,834)
Net finance costs	**$(1,790)**	**$(2,798)**

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

	2019 $000	2018 $000
Income tax (benefit)/expense in the income statement		
Current tax (benefit)/expense		
Current year	(646)	491
Adjustment for prior years	(99)	259
	(745)	**750**
Deferred tax (benefit)/expense		
Origination and reversal of temporary differences	(492)	681
Adjustment for prior years	93	(256)
	(399)	**425**
Income tax (benefit)/expense	**$(1,144)**	**$1,175**
Reconciliation of effective tax rate		
(Loss)/Profit after tax for the year	(16,780)	4,081
Income tax (benefit)/expense	(1,144)	1,175
(Loss)/Profit excluding income tax	**$(17,924)**	**$5,256**

3. FINANCIAL PERFORMANCE (continued)

3h. Income tax (continued)

	2019 $000	2018 $000
Income tax using the Company's domestic tax rate of 28% (2018: 28%)	(5,019)	1,472
Share of profit after tax of equity-accounted investees	(180)	(361)
Loss on sale of interest in, and property held by, equity-accounted investees	3,328	–
Impairment of goodwill	661	–
Non-deductible expenses	36	43
Effect of tax rate difference in foreign jurisdiction	35	29
Underprovided in prior years	(6)	3
Other	1	(11)
Income tax (benefit)/expense	**$(1,144)**	**$1,175**
Income tax recognised directly in equity		
Derivative financial instruments	(86)	136
Income tax on income and expense recognised directly in equity	**$(86)**	**$136**
Imputation credits		
Imputation credits available to shareholders of the Company	**$9,232**	**$8,748**

Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2019 $000	2018 $000	2019 $000	2018 $000	2019 $000	2018 $000
Property, plant and equipment	–	–	(1,130)	(2,744)	(1,130)	(2,744)
Derivatives	–	–	–	–	–	–
Inventories	644	589	–	–	644	589
Employee benefits	1,124	1,232	–	–	1,124	1,232
Provisions	1,193	2,092	–	–	1,193	2,092
Tax loss carry-forwards	3,625	3,802	–	–	3,625	3,802
Net tax assets/(liabilities)	**$6,586**	**$7,715**	**$(1,130)**	**$(2,744)**	**$5,456**	**$4,971**

Deferred tax assets have not been recognised in respect of temporary differences arising from tax losses totalling $24,150,000 (2018: $24,149,000) 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.

3. FINANCIAL PERFORMANCE (continued)

3h. Income tax (continued)

Deferred tax assets and liabilities (continued)

Movement in temporary differences during the year:

	Balance 30 June 2018 $000	Recognised in profit or loss $000	Recognised in equity $000	Balance 30 June 2019 $000
Property, plant and equipment	(2,744)	1,614	–	(1,130)
Derivatives	–	(86)	86	–
Inventories	589	55	–	644
Employee benefits	1,232	(108)	–	1,124
Provisions	2,092	(899)	–	1,193
Tax loss carry-forwards	3,802	(177)	–	3,625
Total	**$4,971**	**$399**	**$86**	**$5,456**

	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
Total	**$5,532**	**$(425)**	**$(136)**	**$4,971**

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. Deferred tax assets are 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.

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 year.

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:

	2019 $000	2018 $000
Total loans and borrowings, including current portion	20,500	31,500
Less cash and cash equivalents	(2,724)	(2,111)
Net debt	**17,776**	**29,389**
Total equity	54,989	72,222
Total capital employed	**$72,765**	**$101,611**
Leverage	**24.4%**	**28.9%**

4. FUNDING (continued)

4b. Share capital, dividends and reserves

Share capital

	2019	2018
Number of ordinary shares issued	**68,679,098**	**68,679,098**

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 (2018: Nil).

The Board has not declared a final dividend in respect of the current year ended 30 June 2019 (2018: 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 year 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.

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 $23,400,000 at balance date, with $20,500,000 utilised at that date.

The Group also had overdraft facilities totalling $1,598,000 at balance date. These facilities are repayable on demand and none of these were utilised at that date.

The Group had financial covenants with the Bank that required the Group to meet, amongst other things, certain EBITDA, revenue, inventory and equity ratio targets during the year. The Group was not in breach of these financial covenants throughout the year ended 30 June 2019 as it was able to renegotiate these with the Bank in advance where required to better reflect operating conditions and financial performance as the year progressed.

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

	Nominal interest rate 2019 %	Face value 2019 $000	Carrying amount 2019 $000	Nominal interest rate 2018 %	Face value 2018 $000	Carrying amount 2018 $000
Non-current		20,500	20,500		27,500	27,500
Current		–	–		4,000	4,000
Total secured bank loans	**7.0**	**$20,500**	**$20,500**	**7.3**	**$31,500**	**$31,500**

The Group had no other borrowings at balance date (2018: 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 September 2020 prior to balance date.

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

5. ASSETS EMPLOYED

This section covers non-current assets, being property, plant and equipment, other assets 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
Cost or deemed cost					
Balance at 1 July 2018	23,734	72,603	14,601	119	111,057
Additions	434	694	2,621	956	4,705
Disposals	(9)	(4,511)	(1,109)	–	(5,629)
Transfers	–	62	56	(118)	–
Balance at 30 June 2019	**$24,159**	**$68,848**	**$16,169**	**$957**	**$110,133**
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)	–
Balance at 30 June 2018	**$23,734**	**$72,603**	**$14,601**	**$119**	**$111,057**
Depreciation and impairment losses					
Balance at 1 July 2018	2,403	61,444	12,068	–	75,915
Depreciation for the year	257	2,568	654	–	3,479
Impairment losses provided	–	4,369	1,760	–	6,129
Disposals	(9)	(4,443)	(1,102)	–	(5,554)
Balance at 30 June 2019	**$2,651**	**$63,938**	**$13,380**	–	**$79,969**
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 reversed	–	(137)	–	–	(137)
Impairment losses provided	–	90	–	–	90
Disposals	–	(957)	(728)	(226)	(1,911)
Balance at 30 June 2018	**$2,403**	**$61,444**	**$12,068**	**–**	**$75,915**
Carrying amounts					
At 30 June 2019	**$21,508**	**$4,910**	**$2,789**	**$957**	**$30,164**
At 30 June 2018	$21,331	$11,159	$2,533	$119	$35,142

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

5. ASSETS EMPLOYED (continued)

5a. Property, plant and equipment (continued)

Impairment loss

Impairment loss in respect of plant and equipment and other assets of $6,129,000 was recognised for the year (2018: $90,000).

No prior year impairment losses relating to specific items of fixed assets were reversed during the year (2018: $137,000).

Due to identification of indicators of impairment – more particularly, the $39,787,000 shortfall in the Group's market capitalisation when compared with the carrying value of its net assets (before impairment of goodwill, plant and equipment and other assets) at balance date, the deterioration in profitability and the ongoing reduction in carpet sales volumes – the Group conducted an impairment test of the carrying value of the assets (more particularly, goodwill, property, plant and equipment and other assets) that is allocated to the carpet sales and manufacturing cash-generating unit ("Carpet CGU") as at 30 June 2019.

The carrying value of these assets was tested for impairment by determining the recoverable amount of the Carpet CGU and assessing the extent to which the carrying value of these assets exceeds the recoverable amount, with an impairment loss recognised to the extent of that excess.

The recoverable amount of the Carpet CGU was determined by discounting Carpet CGU cash flow projections for the next five years, taking into consideration historic data and forecast economic conditions and based on the following significant assumptions:

- Carpet sales volumes down 5% on 2019 in 2020, before increasing by 6% per annum from 2021 to 2023 and returning sales volumes to the levels achieved in 2018;
- Carpet sales prices to increase by average of 2% in respect of wool products in 2020 and then remaining unchanged thereafter;
- Wool price, scoured and delivered, of $4.02/kg throughout the period;
- NZD:AUD exchange rates of around 0.9300 throughout the period;
- Improvement in operating performance of the Group's manufacturing plants and reduction in operating costs;
- Post-tax discount rate of 12.8% (2018: 11.1%);
- Long term growth rate of 1.5% (2018: 2.0%).

Management believes that the key assumptions used, and estimates made, represent the most realistic assessment of the recoverable amount of the assets, including goodwill, allocated to the Carpet CGU.

Based on this assessment – which indicated impairment losses totalling $8,491,000 (being the extent to which the carrying value of assets allocated to the Carpet CGU exceeded its recoverable amount at balance date) – the Board approved the $6,129,000 impairment of plant and equipment and other assets in addition to the $2,362,000 impairment of goodwill as disclosed at note 5c (Goodwill) to the financial statements.

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.

Impairment

The carrying amount of property, plant and equipment and other assets is tested for impairment whenever there are indicators of 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 property, plant and equipment and other assets is allocated exceeds its recoverable amount.

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 post-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.

5. ASSETS EMPLOYED (continued)

5a. Property, plant and equipment (continued)

The assessment of the recoverable amount of the Carpet CGU requires judgements, estimations and assumptions regarding the various inputs underlying the five-year cash flow projections of the Carpet CGU as well as the discount rate used to determine the net present values of those future cash flows.

5b. Capital commitments

The Group had outstanding commitments for the purchase of plant and equipment of $361,000 at balance date (2018: $397,000).

5c. Goodwill

As disclosed at note 5a (Property, plant and equipment) to the financial statements, the Group conducted an impairment test of the carrying value of the assets – including goodwill – that is allocated to the carpet sales and manufacturing cash-generating unit ("Carpet CGU") as at 30 June 2019.

Based on the results and management's assessment of the recoverable amount of the assets allocated to the Carpet CGU as disclosed at note 5a (Property, plant and equipment) to the financial statements, the Board has approved the impairment of the $2,362,000 of goodwill at balance date, consistent with the challenging operating conditions and the ongoing reduction in carpet sales volumes.

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 post-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.

Refer to note 5a (Property, plant and equipment) to the financial statements for details.

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-terms assets (cash and cash equivalents, trade receivables, other receivables and prepayments and inventories) and liabilities (trade payables and accruals).

6a. Cash and cash equivalents

Cash and cash equivalents at balance date comprise cash on hand.

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

6. WORKING CAPITAL (continued)

6b. Trade receivables, other receivables and prepayments

	2019 $000	2018 $000
Trade receivables due from trade customers	11,808	15,184
Other receivables	78	54
Prepayments	458	344
	$12,344	**$15,582**

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 using the expected loss model, taking into account the historical loss experienced in portfolios with a similar number of days overdue as well as current conditions and forecast of future economic conditions.

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

	2019 $000	2018 $000
Raw materials and consumables	16,653	17,896
Work in progress	1,639	1,664
Finished goods	29,386	27,761
	$47,678	**$47,321**
Carrying amount of inventories subject to retention of title clauses	**$2,004**	**$2,351**

In 2019, the net realisable value provision in respect of inventories increased by $269,000 (2018: decreased by $766,000).

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 and 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.

6. WORKING CAPITAL (continued)

6d. Trade payables and accruals

	2019 $000	2018 $000
Trade payables	15,102	17,671
Accruals	1,912	1,819
	$17,014	**$19,490**

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.

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 63, 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 transactional foreign currency risk to the extent that there is a mismatch between the currencies in which sales, purchases, receivables and payables are denominated and the Group's functional currency which is New Zealand dollar ($).

The Group enters into foreign currency contracts within policy parameters to manage the risk associated with forecast sales and purchases. The Group's policy allows management to hedge up to 12 months forecast sales and purchases without prior approval of the Board having first been obtained.

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.

The Group applies a hedge ratio of 1:1. The method used to assess hedge effectiveness is Critical Match Terms whereby the hedging instrument and the hedged item are matched to the key terms. In the hedge relationship, the main cause of ineffectiveness includes a change in the critical terms, for example, the timing of the transaction.

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.

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:

	2019 $000	2018 $000
New Zealand	6,121	8,897
Australia	5,322	5,247
Other regions	443	1,094
Trade and other receivables	**$11,886**	**$15,238**

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

	Current	0 – 30 days past due	31 – 120 days past due	More than 120 days past due	Total
2019					
Expected loss rate	**0%**	**0%**	**0%**	**9%**	
Gross carrying amount – trade and other receivables	**9,873**	**1,574**	**313**	**139**	**11,899**
Loss allowance	**–**	**–**	**–**	**(13)**	**(13)**
2018					
Expected loss rate	0%	0%	0%	11%	
Gross carrying amount – trade and other receivables	13,875	813	203	390	15,281
Loss allowance	–	–	–	(43)	(43)

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

	2019 $000	2018 $000
Trade and other receivables – gross	11,899	15,281
Individual impairment provisions	(13)	(43)
Trade and other receivables – net	**$11,886**	**$15,238**

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 Group adopts the expected loss model in assessing its trade and other receivables for impairment. In doing so, it determines impairment on a forward-looking basis, taking into account not only past events and current conditions, but also forecast of future economic conditions. Bad debts are written off when they are considered to have become uncollectable.

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

	2019 $000	2018 $000
Balance at 1 July	(43)	(34)
Impaired trade receivables written off	–	–
Changes in impairment provision	30	(9)
Balance at 30 June	**$(13)**	**$(43)**

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

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
2019							
Secured bank loans	20,500	21,440	403	403	20,634	–	–
Trade payables and accruals	17,014	17,014	17,014	–	–	–	–
Total non-derivative liabilities	**$37,514**	**$38,454**	**$17,417**	**$403**	**$20,634**	**–**	**–**
Interest rate swaps	**$621**	**$575**	**$156**	**$114**	**$135**	**$154**	**$16**
Forward exchange contracts							
Inflow		(22,636)	(21,343)	(1,293)	–	–	–
Outflow		21,979	20,738	1,241	–	–	–
	$(625)	**$(657)**	**$(605)**	**$(52)**	**–**	**–**	**–**
2018							
Secured bank loans	31,500	33,280	7,119	3,045	23,116	–	–
Trade payables and accruals	19,490	19,490	19,490	–	–	–	–
Total non-derivative liabilities	**$50,990**	**$52,770**	**$26,609**	**$3,045**	**$23,116**	**–**	**–**
Interest rate swaps	**$585**	**$761**	**$169**	**$131**	**$227**	**$195**	**$39**
Forward exchange contracts							
Inflow		(40,815)	(27,920)	(10,669)	(2,226)	–	–
Outflow		39,856	27,187	10,493	2,176	–	–
	$(963)	**$(959)**	**$(733)**	**$(176)**	**$(50)**	**–**	**–**

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:

NZD equivalent of these foreign currencies:	AUD $000	USD $000	EUR $000	Others $000
2019				
Trade receivables	5,196	178	2	28
Trade payables	(2,412)	(4,131)	(1)	(7)
Net statement of financial position exposure before hedging activity	**2,784**	**(3,952)**	**1**	**21**
Estimated forecast sales for which hedging is in place	9,992	–	–	–
Estimated forecast purchases for which hedging is in place	–	(5,804)	–	–
Net cash flow exposure before hedging activity	**12,776**	**(9,756)**	**1**	**21**
Forward exchange contracts				
Notional amounts	(12,776)	9,756	–	–
Net unhedged exposure	**–**	**–**	**$1**	**$21**
2018				
Trade receivables	5,190	767	24	45
Trade payables	(2,466)	(4,455)	(1)	(7)
Net statement of financial position exposure before hedging activity	**2,724**	**(3,688)**	**23**	**38**
Estimated forecast sales for which hedging is in place	28,374	–	–	–
Estimated forecast purchases for which hedging is in place	–	(5,412)	–	–
Net cash flow exposure before hedging activity	**31,098**	**(9,100)**	**23**	**38**
Forward exchange contracts				
Notional amounts	(31,098)	9,100	–	–
Net unhedged exposure	**–**	**–**	**$23**	**$38**

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 $000
2019						
Financial assets and liabilities						
Cash and cash equivalents	2,724	2,724	–	–	–	–
Secured bank loans	(20,500)	(20,500)	–	–	–	–
	(17,776)	**(17,776)**	**–**	**–**	**–**	**–**
Related derivatives						
Effect of interest rate swaps	–	10,000	–	(5,000)	(2,500)	(2,500)
Total	**$(17,776)**	**$(7,776)**	**–**	**$(5,000)**	**$(2,500)**	**$(2,500)**
2018						
Financial assets and liabilities						
Cash and cash equivalents	2,111	2,111	–	–	–	–
Secured bank loans	(31,500)	(31,500)	–	–	–	–
	(29,389)	**(29,389)**	**–**	**–**	**–**	**–**
Related derivatives						
Effect of interest rate swaps	–	12,500	–	(2,500)	(7,500)	(2,500)
Total	**$(29,389)**	**$(16,889)**	**–**	**$(2,500)**	**$(7,500)**	**$(2,500)**

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.

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 2019 and 2018 after taking into account the forward exchange contracts that the Group had in place at balance date to hedge these exposures.

The impact of a change in interest rates on the Group's profit or loss and OCI is set out as follows:

	Increase 1.0% $000	Decrease (1.0%) $000	Increase 1.0% $000	Decrease (1.0%) $000
	P&L		OCI	
Interest rate impact - Net	(93)	93	112	(112)

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.

The Group had no forward starting swaps as at 30 June 2019 (2018: $5,000,000, 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.

Forecast transactions

The Group classifies the forward exchange contracts taken out to hedge forecast transactions as cash flow hedges.

7. RISKS AND FINANCIAL INSTRUMENTS (continued)

The following relates to items designated as hedging instruments:

	Notional amount $000	Carrying amount Assets $000	Carrying amount Liabilities $000	Line item in statement of financial position	Changes in the value of the hedging instrument recognised in OCI during the year $000	Balance in CFHR $000	Hedge ratio	Average rate of hedging	Maturity date
2019									
Foreign currency risk									
Forward exchange contracts – sales and receivables	AUD11,680	541	–	Derivative financial instruments – assets	(40)	271	1:1	0.9142	100% of notional amount expiring within 12 months of balance date
Forward exchange contracts – inventory purchases	USD6,605	112	(28)	Derivative financial instruments – assets and liabilities	(231)	44	1:1	0.6770	100% of notional amount expiring within 12 months of balance date
Interest rate risk									
Interest rate swaps	NZD12,500	–	(621)	Derivative financial instruments – liabilities	(36)	(621)	1:1	2.88% – 4.92%	$2.5 million of notional amount expiring within 6 months of balance date. Balance over the next six years.
2018									
Foreign currency risk									
Forward exchange contracts – sales and receivables	AUD28,200	363	(8)	Derivative financial instruments – assets and liabilities	(498)	311	1:1	0.9068	93% of notional amount expiring within 12 months of balance date. 7% within 18 months of balance date.
Forward exchange contracts – inventory purchases	USD6,583	608	–	Derivative financial instruments – assets	782	275	1:1	0.7234	100% of notional amount expiring within 12 months of balance date
Interest rate risk									
Interest rate swaps	NZD17,500	–	(585)	Derivative financial instruments – liabilities	200	(585)	1:1	2.88% – 4.92%	$5.0 million of notional amount expiring within 6 months of balance date. Balance over the next seven years.

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	Amortised cost $000	Total carrying amount S000	Fair value $000	Fair value hierarchy Level 2 $000
2019					
Assets					
Derivatives	653	–	653	653	653
Trade and other receivables	–	11,886	11,886	11,886	–
Cash and cash equivalents	–	2,724	2,724	2,724	–
Total assets	**$653**	**$14,610**	**$15,263**	**$15,263**	
Liabilities					
Loans and borrowings	–	20,500	20,500	20,500	20,500
Total non-current liabilities	**–**	**20,500**	**20,500**	**20,500**	
Derivatives	649	–	649	649	649
Trade and other payables	–	20,870	20,870	20,870	–
Total current liabilities	**649**	**20,870**	**21,519**	**21,510**	
Total liabilities	**$649**	**$41,370**	**$42,019**	**$42,019**	

	Hedging instruments $000	Loans and receivables $000	Other amortised cost $000	Total carrying amount S000	Fair value $000	Fair value hierarchy Level 2 $000
2018						
Assets						
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	–
Total assets	**$971**	**$17,349**	**–**	**$18,320**	**$18,320**	
Liabilities						
Loans and borrowings	–	–	27,500	27,500	27,500	27,500
Total non-current liabilities	**–**	**–**	**27,500**	**27,500**	**27,500**	
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	–
Total current liabilities	**593**	**–**	**27,566**	**28,159**	**28,159**	
Total liabilities	**$593**	**–**	**$55,066**	**$55,659**	**$55,659**	

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

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 2019, 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.

7. RISKS AND FINANCIAL INSTRUMENTS (continued)

Master netting or similar agreements (continued)

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

	2019		2018	
	Derivative assets $000	Derivative liabilities $000	Derivative assets $000	Derivative liabilities $000
Gross amounts in the statement of financial position	653	(649)	971	(593)
Amounts offset	–	–	–	–
Net amounts in the statement of financial position	**653**	**(649)**	**971**	**(593)**
Related amounts that are not offset based on ISDA	(649)	649	(593)	593
Net amounts	**$4**	**–**	**$378**	**–**

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 Group sold its interest in 27.5%-owned Cavalier Wool Holdings Limited ("CWH") and the property held by 50%-owned CWS Assets Limited ("CWSA") on 30 September 2018.

The details relating to the Group's investments in CWH and CWSA are set out below:

	2019 $000	2018 $000
Carrying value at 1 July	24,544	23,490
Share of comprehensive income	716	1,194
Dividends received	(2,783)	(140)
Proceeds of sale of interest in CWH and property in CWSA	(10,593)	–
Loss on sale of interest in CWH and property in CWSA	(11,884)	–
Carrying value at 30 June	**–**	**$24,544**

8. OTHERS (continued)

8a. Equity-accounted investees (continued)

The following tables summarise the financial information of CWH and CWSA 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 as at and to 30 June 2019:

	2019 $000		2018 $000	
	CWH	CWSA	CWH	CWSA
Cash and cash equivalents	–	–	4,013	50
Other current assets	–	–	7,617	–
Non-current assets	–	–	110,503	3,369
Total assets	**–**	**–**	**122,133**	**3,419**
Current liabilities	–	–	5,839	11
Non-current liabilities	–	–	36,122	–
Total liabilities	**–**	**–**	**41,961**	**11**
Net assets (100%)	**–**	**–**	**$80,172**	**$3,408**
Revenue	13,431	72	50,786	288
Depreciation	(998)	(5)	(3,398)	(31)
Net interest expense	(365)	–	(1,850)	–
Other expenses	(8,838)	(1)	(38,900)	(1)
Profit before income tax	**3,230**	**66**	**6,638**	**256**
Income tax expense	(974)	(18)	(2,276)	(72)
Profit after tax	**2,256**	**48**	**4,362**	**184**
Changes in fair value of cash flow hedges (net of income tax)	–	–	(354)	–
Total comprehensive income (100%)	**$2,256**	**$48**	**$4,008**	**$184**
Percentage ownership interest	**27.5%**	**50.0%**	**27.5%**	**50.0%**
Share of net assets	–	–	22,047	1,705
Initial transaction costs	–	–	792	–
Carrying value of interest in equity-accounted investees	**–**	**–**	**$22,839**	**$1,705**
Group's share of profit after tax	620	24	1,199	92
Group's share of changes in fair value of cash flow hedges (net of income tax)	72	–	(97)	–
Group's share of total comprehensive income of equity-accounted investees	**$692**	**$24**	**$1,102**	**$92**

8. OTHERS (continued)

8b. Provisions

	Insurances $000	Restructuring $000	Onerous contracts $000	Warranties $000	Total $000
Balance at 1 July 2018	210	1,875	241	1,006	3,332
Amounts provided during the year	–	–	12	37	37
Amounts incurred during the year	–	(1,500)	(239)	(3)	(3)
Released to profit or loss during the year	–	(225)	–	–	(225)
Balance at 30 June 2019	**$210**	**$150**	**$14**	**$1,040**	**$1,414**
Non-current	210	–	–	505	715
Current	–	150	14	535	699
Balance at 30 June 2019	**$210**	**$150**	**$14**	**$1,040**	**$1,414**
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)
Balance at 30 June 2018	**$210**	**$1,875**	**$241**	**$1,006**	**$3,332**
Non-current	210	375	28	505	1,118
Current	–	1,500	213	501	2,214
Balance at 30 June 2018	**$210**	**$1,875**	**$241**	**$1,006**	**$3,332**

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*.

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, with the provision utilised as the costs relating thereto are incurred or adjusted to reflect current estimates of costs to be incurred. The amount incurred during the year relates to the amount paid on the early surrender of one of the leased premises that was surplus to requirements.

8. OTHERS (continued)

8b. Provisions (continued)

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, with the provision reflecting the shortfall between sub-let income and rental expense, discounted to net present value.

Warranties

The provision for warranties relates mainly to carpet sold during the years ended 30 June 2019 and 2018. 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 warranties requires judgement to be applied by considering a range of factors including the nature and extent of historical claims data associated with similar products sold by the Group, the terms of the warranties built into supply contracts, consumer protection laws in key markets and the corrective actions being taken to address quality issues at production.

8c. Employee benefits

	2019 $000	2018 $000
Liability for retiring allowances	96	96
Liability for long service leave	807	815
Total employee benefits	**$903**	**$911**

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.

8. OTHERS (continued)

8d. Operating leases

	2019 $000	2018 $000
Lease payments relating to non-cancellable operating leases	**$2,650**	**$3,328**
Gross commitments under non-cancellable operating leases:		
Less than one year	2,246	2,875
Between one and five years	3,264	4,675
Greater than five years	–	63

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 5 years	None
Unit 1, 165-169 Lower Gibbes Street, Sydney, Australia	Within 1 year	None
373 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.

	2019 $000	2018 $000
Sublease income relating to non-cancellable operating leases	**$605**	**$891**
Gross sublease income commitments under non-cancellable operating leases:		
Less than one year	236	596
Between one year and three years	–	236

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 $879,000 (2018: $2,095,000).

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 $20,500,000 (2018: $31,500,000).

8. OTHERS (continued)

8f. Related parties

Transactions with directors and key management personnel

For the purposes of this note, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

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 key management personnel during the year ended 30 June 2019 (2018: Nil).

Directors' remuneration and benefits

The fees paid to the Directors for services in their capacity as directors totalled $387,000 during the year ended 30 June 2019 (2018: $345,000).

No other services were provided by the Directors during the year (2018: Nil).

The scale of fees payable to the Directors was last reviewed and approved by the Board in January 2019, with the current scale of fees applying with effect from 1 January 2019 set out below:

Directors' fees	Per annum	Explanatory notes
Non-executive Chairman of the Board	$128,100	Inclusive of time spent on Board committees and as Chairman of Nomination Committee
Non-executive directors (including Deputy Chairman of the Board)	$61,000	Inclusive of time spent on Board committees
Chairman of the Audit Committee	$10,000	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 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.

8. OTHERS (continued)

8f. Related parties (continued)

Transactions with directors and key management personnel (continued)

Key management personnel's (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 key management personnel 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 key management personnel (but excluding the Directors' remuneration and benefits which are set out on the previous page) comprised:

	2019 $000	2018 $000
Salaries, bonuses and leave entitlements	2,525	2,940
Employee benefits	53	95
Termination payments	251	152
	$2,829	**$3,187**

The Group has not provided the Chief Executive Officer and key management personnel with any post-employment benefits.

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 key management personnel, 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 key management personnel, 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.

8g. Group entities

Operating subsidiaries of the Group

	Principal activity	Country of incorporation	Interest (%) 2019	Interest (%) 2018
Cavalier Bremworth Limited	Carpet sales and manufacturing	New Zealand	100	100
Cavalier Bremworth Pty Limited	Carpet sales	Australia	100	100
Cavalier Spinners Limited	Carpet yarn sales	New Zealand	100	100
Elco Direct Limited	Wool acquisition	New Zealand	100	100

Equity-accounted investees of the Group

	Principal activity	Country of incorporation	Interest (%) 2019	Interest (%) 2018
Cavalier Wool Holdings Limited	Wool scouring	New Zealand	–	27.5
CWS Assets Limited	Property owning, with property sold on 30 September 2018 as part of the sale of the Group's 27.5% interest in Cavalier Wool Holdings Limited	New Zealand	50.0	50.0

8. OTHERS (continued)

8h. Event after balance date

On 22 August 2019, the Group announced that it was accelerating a strategic review to develop and implement an innovative and transformative business model focused around wool.

On 23 August 2019, the Group further announced a strategic collaboration with The New Zealand Merino Company as the Group looked to develop and implement a transformative and design-led business model.

The carrying values of the assets of the Group as at 30 June 2019, and the underlying business models supporting these carrying values, did not reflect the effect of a transformation. Should the Group decide to proceed with a transformation of its business, the carrying value of the Group's assets may be materially impacted, and material liabilities related to any restructuring may be incurred.

8i. Standards, interpretations and amendments to standards

The following accounting standard is not yet effective and has not been early adopted by the Group:

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 *Leases*. 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 apply NZ IFRS 16 with effect from 1 July 2019, using the modified retrospective approach. Certain practical expedients are expected to be applied. The cumulative effect of adopting NZ IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 July 2019, with no restatement of comparative information. This is a non-cash adjustment and will not impact the Group's ability to comply with its debt covenants because all changes effected by NZ IFRS 16 in relation to finance leases and operating leases shall not be taken into account for the purpose of calculating financial covenants pursuant to the terms of the Group's facility agreement with the Bank.

The operating lease commitments set out in note 8d (Operating leases) to the financial statements, to the extent that they relate to leases of identifiable assets with a term in excess of 12 months, will be brought onto the statement of financial position on 1 July 2019.

The Group has conducted a preliminary assessment of the impact of NZ IFRS 16, and based on the information currently available, it estimates that it will recognise ROU assets of approximately $4,700,000 million and lease liabilities of approximately $4,700,000 on 1 July 2019, with these estimates calculated using a discount rate derived from the incremental borrowing rate for the Group when the interest rate implicit in the lease was not readily available.

The way expenses related to leases are recognised in profit or loss will change under NZ IFRS 16 because the Group will be recognising a depreciation charge for ROU assets and interest expense on lease liabilities. Previously, the Group recognised an operating lease expense over the term of the lease.

Impact on earnings

The application of NZ IFRS 16 will largely impact the Group's cost of sales and finance costs, with lease expenses effectively reclassified into a deprecation component and an interest component to reflect the implied financing in leases. This will result in a decrease in cost of sales, and therefore an increase in gross profit, offset by an increase in finance costs. All other things remaining unchanged, the Group estimates an increase in gross profit of approximately $168,000 and an increase in finance costs of approximately $280,000 for the year ending 30 June 2020.

There are no other new standards or amendments to existing standards which have or are expected to have a material impact on the Group.

The Directors acknowledge that the Annual Report, including the Trend Statement from pages 80 to 83, 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 July 2017.

The Trend Statement has been prepared using the audited GAAP-compliant financial statements of the Group, but it has not been audited.

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 restructuring costs and other gains/losses (for example, gain/loss on sale of property and investments) that are not 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.

Non-GAAP financial information does not have standardised meaning prescribed by GAAP and therefore may not be comparable to similar financial information prescribed by other entities.

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 to investors and how it is used internally by management;
- identifying the source of non-GAAP financial information;
- ensuring that:
  - non-GAAP financial information is not presented with undue and greater prominence, emphasis or authority than the most directly comparable GAAP financial information;
  - presentation of non-GAAP financial information does not in any way confuse or obscure presentation of GAAP financial information;
  - a reconciliation from the non-GAAP financial information to the most directly comparable GAAP financial information, including that for the previous period, can be easily accessed (see next page);
  - a consistent approach is adopted from period to period with respect to the presentation of non-GAAP financial information, including that for comparative periods;
  - where there is any change in approach from the previous period, the nature of the change is explained and the reasons and financial impact provided;
  - non-GAAP financial information is unbiased; and
- taking care when describing, or referring to, items as 'one-off' or 'non-recurring'.

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

	Year ended 30 June 2019			Year ended 30 June 2018		
	GAAP $000	Adjustments $000	Normalised $000	GAAP $000	Adjustments $000	Normalised $000
Revenue	**$135,234**	**–**	**$135,234**	**$156,120**	**–**	**$156,120**
EBITDA	(1,415)	8,491	7,076	10,324	(326)	9,998
Depreciation	(3,479)	–	(3,479)	(3,561)	–	(3,561)
EBIT	**(4,894)**	**8,491**	**3,597**	**6,763**	**(326)**	**6,437**
Net interest expense	(1,790)	–	(1,790)	(2,798)	–	(2,798)
Share of profit after tax of equity-accounted investees	644	–	644	1,291	128	1,419
Loss on sale of interest in, and property held by, equity-accounted investees	(11,884)	11,884	–	–	–	–
(Loss)/Profit before tax	(17,924)	20,375	2,451	5,256	(198)	5,058
Tax (expense)/benefit	1,144	(1,716)	(572)	(1,175)	91	(1,084)
(Loss)/Profit after tax	**$(16,780)**	18,659	1,879	**$4,081**	(107)	3,974
Abnormal net loss after tax		(18,659)	(18,659)		107	107
(Loss)/Profit after tax (GAAP)		**–**	**$(16,780)**		**–**	**$4,081**

Analysis of abnormal items	(Loss) / Profit before tax $000	Tax effect $000	(Loss) / Profit after tax $000	Profit/ (Loss) before tax $000	Tax effect $000	Profit/ (Loss) after tax $000
Restructuring costs	–	–	–	189	(53)	136
Impairment of fixed assets	(6,129)	1,716	(4,413)			
Impairment of goodwill	(2,362)	–	(2,362)			
Reversal of impairment of fixed assets	–	–	–	137	(38)	99
Scour merger costs	–	–	–	(128)	–	(128)
Loss on sale of interest in, and property held by, equity-accounted investees	(11,884)	–	(11,884)	–	–	–
	$(20,375)	**$1,716**	**$(18,659)**	**$198**	**$(91)**	**$107**

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

	GAAP-compliant reported (loss)/profit after tax	Reverse abnormal items (net of tax)	Non GAAP-compliant normalised profit/ (loss) after tax
Year ended 30 June 2019			
(Loss)/Profit attributable to shareholders ($000)	$(16,780)	$18,659	$1,879
Weighted average number of ordinary shares	68,679,098		68,679,098
(Loss)/Earnings per share (basic and diluted)	(24.4) cents		2.7 cents
Year ended 30 June 2018			
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

	2019 $000	2018 $000	2017 $000	2016 $000	2015 $000	2014 $000	2013 $000
Financial Performance							
Operating revenue	**$135,234**	**$148,120**	**$156,120**	**$190,371**	**$215,728**	**$200,642**	**$201,739**
EBITDA (normalised)	**7,076**	**9,998**	**2,572**	**12,275**	**8,517**	**14,609**	**12,142**
Depreciation	(3,479)	(3,561)	(3,251)	(3,352)	(5,862)	(5,849)	(6,328)
EBIT (normalised)	**3,597**	**6,437**	**(679)**	**8,923**	**2,655**	**8,760**	**5,814**
Net interest expense	(1,790)	(2,798)	(2,936)	(3,374)	(3,948)	(3,484)	(3,740)
Share of profit after tax of equity-accounted investees (normalised)	644	1,419	797	2,670	2,034	2,044	5,013
Profit/(Loss) before income tax (normalised)	**2,451**	**5,058**	**(2,818)**	**8,219**	**741**	**7,320**	**7,087**
Income tax (expense)/benefit	(572)	(1,084)	962	(1,906)	454	(1,530)	(463)
Profit/(Loss) after tax (normalised)	**1,879**	**3,974**	**(1,856)**	**6,313**	**1,195**	**5,790**	**6,624**
Abnormal costs (after tax)	(18,659)	107	(268)	(3,198)	(26,910)	–	(3,594)
(Loss)/Profit after tax attributable to shareholders of the Company (GAAP)	**(16,780)**	**4,081**	**(2,124)**	**3,115**	**(25,715)**	**5,790**	**3,030**
Ordinary dividends paid	–	–	–	–	–	(4,785)	–
(Loss)/Profit after dividends	**$(16,780)**	**$4,081**	**$(2,124)**	**$3,115**	**$(25,715)**	**$1,005**	**$3,030**
Financial Position							
Shareholders' equity	54,989	72,222	67,890	69,361	66,184	92,959	93,918
Loans and borrowings	20,500	27,500	35,000	37,700	45,000	61,220	58,896
Term liabilities	1,618	2,029	3,728	4,461	4,938	6,363	6,961
Loans and borrowings – current portion	–	4,000	6,500	–	11,767	–	320
Current liabilities	22,227	27,253	25,739	35,854	41,237	37,518	36,542
Shareholders' equity and total liabilities	**$99,334**	**$133,004**	**$138,857**	**$147,376**	**$169,126**	**$198,060**	**$196,637**
Fixed assets	30,164	35,142	37,123	36,820	47,910	63,900	68,932
Investment in equity-accounted investees	–	24,544	23,490	23,175	24,937	25,900	23,856
Goodwill and other intangibles	–	2,362	2,362	2,362	2,362	7,794	7,794
Deferred tax asset	5,456	4,971	5,532	3,496	1,388	3,107	2,797
Non-current assets	**35,620**	**67,019**	**68,507**	**65,853**	**76,597**	**100,701**	**103,379**
Cash at bank	2,724	2,111	1,255	1,200	2,834	2,375	5,932
Current assets	60,990	63,874	69,095	80,323	89,695	94,984	87,326
Total assets	**$99,334**	**$133,004**	**$138,857**	**$147,376**	**$169,126**	**$198,060**	**$196,637**

	2019 $000	2018 $000	2017 $000	2016 $000	2015 $000	2014 $000	2013 $000
Abnormal items (after tax)							
Impairment of carpet tile business assets	–	–	–	–	(9,132)	–	–
Impairment of fixed assets	(4,413)	–	–	(1,573)	(4,344)	–	–
Impairment of intangible assets	(2,362)	–	–	–	(5,432)	–	–
Derecognition of deferred tax asset	–	–	–	–	(6,771)	–	–
Restructuring costs	–	136	(4,542)[1]	(3,222)[1]	(711)	–	(4,113)[2]
Releases of provisions made previously	–	–	–	–	–	–	519
Reversal of impairment of fixed assets	–	99	1,083	–	–	–	–
Gain on sale of property	–	–	–	2,035	–	–	–
Scour merger costs	–	(128)	(738)	(438)	(520)	–	–
Gain on merger and dilution of equity-accounted investee	–	–	3,929	–	–	–	–
Loss on sale of interest in, and property held by, equity-accounted investees	(11,884)	–	–	–	–	–	–
Total	**$(18,659)**	**$107**	**$(268)**	**$(3,198)**	**$(26,910)**	**–**	**$(3,594)**

[1] Incurred as part of the Group's strategic plan to address its cost base, with the consolidation of its yarn spinning operations in Napier, Whanganui 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 Whanganui) to a single hub at the Napier plant;
- down-scaling of the semi-worsted yarn spinning operation in Whanganui;
- relocation of the felted yarn operation from Christchurch to Whanganui; and
- closure of the Christchurch plant.

[2] 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.

	2019	2018	2017	2016	2015	2014	2013
Financial Ratios and Summary							
Use of Funds and Return on Investment							
Return on average shareholders' equity (normalised)	3.0%	5.7%	(2.7)%	9.3%	1.5%	6.2%	7.2%
Basic earnings per ordinary share (normalised)	2.7c	5.8c	(2.7)c	9.2c	1.7c	8.5c	9.7c
Financial Structure							
Net tangible asset backing per ordinary share	$0.72	$0.94	$0.87	$0.92	$0.91	$1.19	$1.22
Equity ratio	55.4%	54.3%	48.9%	47.1%	39.1%	46.9%	47.8%
Net interest-bearing debt : equity ratio	24:76	29:71	37:63	34:66	45:55	39:61	36:64
Net interest cover (normalised) (times)	2.0	2.4	1.5	4.4	1.5	2.5	3.0
Return to Shareholders							
Dividends paid per ordinary share (excluding supplementary)	–	–	–	–	–	7.0c	–
Dividend imputation	–	–	–	–	–	100%	–
Ordinary dividend cover (normalised) (times)	–	–	–	–	–	1.2	–
Supplementary dividends paid per ordinary share	–	–	–	–	–	1.24c	–
Share Price							
30 June	$0.32	$0.62	$0.35	$0.76	$0.36	$1.33	$1.70
52 week high	$0.68	$0.63	$0.95	$0.77	$1.36	$2.03	$2.12
52 week low	$0.31	$0.27	$0.33	$0.35	$0.31	$1.33	$1.45
Market Capitalisation ($000)							
30 June	$21,977	$42,581	$24,038	$52,196	$24,724	$91,343	$116,049
Capital Expenditure and Depreciation ($000)							
Capital expenditure	$4,705	$1,622	$2,123	$2,076	$2,564	$2,494	$1,907
Depreciation	$3,479	$3,561	$3,251	$3,352	$5,862	$5,849	$6,328

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)	Profit/(Loss) after tax (normalised) / Average shareholders' equity
Basic earnings per ordinary share (normalised)	Profit/(Loss) after tax (normalised) / Weighted average number of ordinary shares on issue during the year

Financial structure

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

Return to shareholders

Ordinary dividend cover (normalised)	Profit/(Loss) after tax attributable to shareholders of the Company (normalised) / Ordinary dividends paid

Governance and Other Disclosures

For the year ended 30 June 2019

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 Company's corporate governance framework materially complies with the 2019 NZX Corporate Governance Code ("NZX Code").

A summary of Cavalier's governance actions and performance against each of the principles in the NZX Code and its compliance with the recommendations relating to each of these principles are set out on pages 85 to 94.

PRINCIPLE 1 – CODE OF ETHICAL BEHAVIOUR

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

The Code of Ethics 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.

Cavalier's Code of Ethics and other key policies and charters relating to corporate governance have been reviewed and aligned with the 2019 NZX Listing Rules ("Listing Rules") and the NZX Code and can be found on the Company's website www.cavcorp.co.nz.

Whistleblowing

Cavalier has established internal procedures to monitor compliance with, and measures for dealing with breaches of, the Code of Ethics. Cavalier encourages employees to speak out if they have concerns. The avenues for doing so are detailed in the Company's Code of Ethics which supports the reporting and investigation of breaches of the Code of Ethics 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 Company's Constitution, Board charter and the Code of Ethics.

The Board reviews at every meeting the interests 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 95 to 97.

Share trading policy

Cavalier has a Share Trading Policy which, along with the Financial Markets Conduct Act 2013, imposes limitations and requirements on Directors and employees in dealing in the Company's shares. 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.

Compliance with NZX Code recommendations

The Board considers that the corporate governance practices it has adopted and followed during the year comply with recommendations 1.1 (relating to documentation of minimum standards of ethical behaviour) and 1.2 (relating to a financial product dealing policy) of the NZ Code.

PRINCIPLE 2 – BOARD COMPOSITION AND PERFORMANCE

The Board's role 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.

The role and responsibilities of the Board are detailed in the Board Charter, which is reviewed at least every two years and is available on the Company's website.

Delegation

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

Board composition

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 and newer Directors who bring fresh perspective and insight is desirable. The Board encourages strong individual thinking and rigorous discussion and analysis when making decisions.

As at 30 June 2019, the Board comprised five Directors – Alan Clarke (Chairman), George Adams (Deputy Chairman), John Rae, Grant Biel and Dianne Williams.

The profile of the Directors can be found on pages 20 and 21.

Director independence

The Board charter provides that the Chairman shall be an independent Director and that the majority of the Board shall be independent Directors.

In order to be an independent director, Directors must not be an employee of the Company or have a 'disqualifying relationship'. Independence is determined in accordance with the Listing Rules and having regard to the factors described in the NZX Code.

George Adams, Alan Clarke, John Rae and Dianne Williams are independent Directors of the Company as at 30 June 2019.

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

Director appointment

Membership of the Board, and appointment and retirement of Directors by rotation, are determined in accordance with the Company's Constitution and Listing Rules.

While the appointment process is the responsibility of the whole Board, the Nomination Committee is tasked with identifying and recommending candidates to fill director vacancies for the approval of the Board. The Committee considers such factors as it deems appropriate, including capability, skill sets, experience, qualifications, judgement and the ability to work with other Directors. Reference checks are carried out on all candidates and key information about candidates is provided to shareholders to assist their decision as to whether to elect or re-elect a candidate.

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.

The Company has written agreements with all Directors appointed since 1 October 2017, establishing the terms of their appointment.

The Board is satisfied that each Director has the necessary time available to devote to the position, broadens the Board's expertise and has a personality that is compatible with the other Directors.

PRINCIPLE 2 – BOARD COMPOSITION AND PERFORMANCE (continued)

Director training, access to information and advice

Directors are encouraged to undertake appropriate training and education to ensure they remain current on how to best perform their duties. In addition, the CEO and senior management provide regular updates on relevant industry and company issues.

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

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.

Attendance at meetings

Board meetings are usually held monthly (except for January), with other meetings held as and when required to deal with any specific matters that may arise between scheduled meetings.

The table below sets out Director attendance at Board, and committee and shareholder meetings for the year ended 30 June 2019.

	Board	Audit Committee	Remuneration Committee	Nomination Committee[2]	Shareholder
Total held	**12**	**5**	**3**	**–**	**1**
Attendance:					
George Adams	11/12	5/5	2/3	–	1/1
Grant Biel	12/12	5/5	3/3	–	1/1
Alan Clarke	12/12	5/5	3/3	–	1/1
Sarah Haydon [1]	5/6	2/2	2/2	–	-/1
John Rae	9/12	4/5	2/3	–	1/1
Dianne Williams	12/12	5/5	3/3	–	1/1

[1] Retired from the Board on 30 October 2018.

[2] All matters that would normally be dealt with by the Committee during the year were dealt with by the Board during Director-only sessions at scheduled Board meetings.

PRINCIPLE 2 – BOARD COMPOSITION AND PERFORMANCE (continued)

Diversity and inclusion policy

Cavalier 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 Company has a Diversity and Inclusion Policy, a copy of which is published on the Company's website. This requires the Board to establish measurable objectives for determining the success of the 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.

Pursuant to this Policy, the Company held during the year:

- a roadshow, led by the CEO and senior management, to share and promote the Diversity and Inclusion Policy with employees; and
- a number of company culture programmes and celebrations to promote diversity and inclusion.

The gender composition of the Company's Directors and officers and the reporting on its progress in achieving the Board's diversity and inclusion policy objectives are summarised below.

	30 June 2019			30 June 2018		
Gender composition	**Male**	**Female**	**Total**	**Male**	**Female**	**Total**
Directors	4/80%	1/20%	5/100%	4/67%	2/33%	6/100%
Officers[1]	5/83%	1/17%	6/100%	6/75%	2/25%	8/100%
Direct reports of officers	25/66%	13/34%	38/100%	26/74%	9/26%	35/100%
Rest of organisation	248/59%	170/41%	418/100%	266/62%	164/38%	430/100%
Total	**282/60%**	**185/40%**	**467/100%**	302/63%	177/37%	479/100%

[1] 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 or report directly to a person who reports directly to the Board.

	30 June 2019		30 June 2018	
Age composition	**Number**	**%**	**Number**	**%**
Under 30 years of age	63	13	58	12
30 to 50 years of age	195	42	206	43
Over 50 years of age	209	45	215	45
Total	**467**	**100**	479	100

Compliance with NZX Code recommendations

The Board considers that the corporate governance practices it has adopted and followed during the year comply with recommendations 2.1 (relating to a written board charter), 2.2 (relating to nomination and appointment of directors), 2.3 (relating to written agreements with newly appointed directors), 2.4 (relating to disclosure of information about each director), 2.5 (relating to a written diversity policy), 2.6 (relating to director training), 2.7 (relating to regular assessment of director, board and committee performance), 2.8 (relating to board independence) and 2.9 (relating to independence of the chair) of the NZ Code.

PRINCIPLE 3 – BOARD COMMITTEES

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 act or make decisions unless specifically mandated by their charter or by prior Board authority to do so.

The Board has three standing committees – the Audit Committee, Remuneration Committee and Nomination Committee. Each of these has a Board approved charter (which can be found on the Company's website), setting out the role, responsibilities, delegations and membership requirements. The Board regularly reviews the charters of each Board committee, their performance against those charters and membership of each committee.

The Board believes that committee charters comply with the recommendations in the NZX Code.

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.

Cavalier's Board committees as at 30 June 2019 were:

Committee	Role	Members
Audit Committee	Assist the Board in ensuring adequacy of financial management, internal reporting and monitoring processes, integrity of financial reporting, statutory audit quality and independence, internal audit and internal controls.	George Adams (Chairman) Grant Biel Alan Clarke John Rae Dianne Williams
Remuneration Committee	Assist the Board in establishing and maintaining a strong governance framework in respect of remuneration packages for Directors and for the CEO and senior management.	John Rae (Chairman) George Adams Grant Biel Alan Clarke Dianne Williams
Nomination Committee	Assist the Board in ensuring appropriate Board performance and composition and in appointing directors.	Alan Clarke (Chairman) George Adams Grant Biel John Rae 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.

Compliance with NZX Code recommendations

The Board considers that the corporate governance practices it has adopted and followed during the year comply with recommendations 3.1 (relating to a written audit committee charter, membership of the audit committee and audit committee chair), 3.2 (relating to attendance at audit committee meetings), 3.3 (relating to a written remuneration committee charter, membership of remuneration committee and attendance at remuneration committee meetings), 3.4 (relating to a nomination committee, a written nomination committee charter and membership of the remuneration committee), 3.5 (relating to other board committees), 3.6 (relating to protocols if there is a takeover offer) of the NZ Code.

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 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 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, sets guidelines and outlines responsibilities to safeguard the Company against inadvertent breaches of continuous disclosure obligations.

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. In preparing financial statements, the Company also ensures that its financial reporting is accompanied by sufficient explanation and is expressed in a clear and objective manner to assist investors make informed investment decisions.

Non-financial reporting

In addition to shareholders, Cavalier has a wide range of stakeholders and maintains open channels of communication for all audiences, including brokers, the investing community and the New Zealand Shareholders' Association, as well as its staff, suppliers and customers.

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.

Insight into Cavalier's assessment of its business, strategy, performance and the transformational shift that is underway to position Cavalier as a design-led wool-focused company can be found on pages 4 to 19.

Compliance with NZX Code recommendations

The Board considers that the corporate governance practices it has adopted and followed during the year comply with recommendations 4.1 (relating to a written continuous disclosure policy), 4.2 (relating to making available code of ethics and other key governance documents available on website), 4.3 (relating to balanced, clear and objective financial reporting) of the NZ Code.

The Board notes that environmental and social responsibilities have always been a part of the Company's ethos, but these are not sufficiently formalised to enable it to fully comply with recommendation 4.3 (relating to non-financial disclosure). A detailed framework addressing the Company's environmental and social responsibilities is currently in development with the assistance of a specialist consultancy. The Board expects the Company to be in a position to move towards more formal measuring and monitoring of these key areas within the context of our business and will update shareholders when it reports on the 2020 financial year.

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.

External advice is sought as required to ensure remuneration is benchmarked to the market for Directors and senior management positions.

Directors' remuneration

Shareholders resolved at the October 2018 Annual Meeting that the total remuneration to be paid to the non-executive Directors be fixed at a sum not exceeding $450,000 per annum, such sum to be divided amongst them in such proportions and in such manner as they may determine.

The remuneration payable to the Directors was last reviewed and approved by the Board on 18 January 2019, with the current scale of Directors' remuneration applying from 1 January 2019 set out on page 75 (note 8f of the notes to the financial statements).

The total remuneration paid to the Directors for the year ended 30 June 2019 was $387,090, with the details paid to each Director set out on page 97.

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
2019	$493,747	$14,812	$17,708	$526,267	–	–	$526,267
2018	$474,757	$14,243	$16,345	$505,345	$40,177	–	$545,522

Subsequent to balance date, the Board introduced a share-based long-term incentive scheme for the CEO and selected members of the senior management team, with the scheme designed to align their interests with those of shareholders.

Entitlements under the scheme are based on the extent to which the CEO and selected members of the senior management team are able to generate total shareholder returns (being increase in share price and dividends paid) in excess of the Company's cost of capital over a three-year performance period, with shares to be issued under the scheme subject to the 3% share cap provided for under the Listing Rules.

Compliance with NZX Code recommendations

The Board considers that the corporate governance practices it has adopted and followed during the year comply with recommendations 5.1 (relating to director remuneration), 5.2 (relating to remuneration policy), 5.3 (relating to disclosure of remuneration arrangements for the CEO) of the NZ Code.

PRINCIPLE 6 – RISK MANAGEMENT

Cavalier is committed to the effective management of risk, which is fundamental to the Company's 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 Management 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.

The material financial risks facing the business and the management of these risks are discussed at pages 60 to 70 (see note 7 of the notes to the financial statements).

Health and safety

The Board has a Health and Safety Policy, a copy of which is published on the Company's website.

The policy provides the context, direction and framework within which all other health and safety materials are developed. It is the foundation for managing health and safety risks whilst applying a learning and people-centric lens to our operations and risk management.

The Board adopts a risk-based approach to health and safety risk management, focusing on strengthening critical risk management, while continuing to develop organisational capability and accountability for making health and safety an integrated part of our business. Health and safety is a regular agenda item at Board meetings and Directors complete site visits which include a health and safety focus. There is an on-going emphasis on learning from events that have a medium or higher health and safety risk potential, regardless of whether they have resulted in injury or harm to proactively prevent reoccurrence of similar events.

The Health and Safety program has concentrated on strengthening control effectiveness for key critical risks including moving vehicles (and forklifts), falling objects and moving plant. This has included physical pedestrian separation zones, upgraded plant safety features and optimisation of racking systems, all executed within a cycle of continuous improvement and with the input and support of our site Health and Safety committees.

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 senior management. A new position of General Manager – Health & Safety was created during the 2019 financial year in recognition of the value that strong health and safety performance creates, with Dr Kirstine Hulse appointed to this position.

The critical risk program continues, with work to develop leading and lag indicators around control effectiveness and organisational capability commencing.

Compliance with NZX Code recommendations

The Board considers that the corporate governance practices it has adopted and followed during the year comply with recommendations 6.1 (relating to adoption of a risk management framework and reporting and management of material risks) and 6.2 (relating to health and safety risks) of the NZ Code.

PRINCIPLE 7 – AUDITORS

External audit

The Board is responsible for ensuring the quality and independence of the statutory audit process and has adopted an External Audit Independence Policy, a copy of which is published on the Company's website.

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

The Committee reviews the quality and cost of the statutory audit undertaken by the Company's external auditor and provides a formal channel of communication between the Board, senior management and external auditor. The Committee also assesses the external auditor's independence on an annual basis.

The external auditor is prohibited from undertaking any work that impairs, or is seen to impair, independence and objectivity with respect to the statutory audit. Other services provided by the external auditor for the year ended 30 June 2019 were non-audit related and were approved pursuant to the External Audit Independence Policy as having no effect on the independence or objectivity of the external auditor in relation to its statutory audit work.

In determining whether a non-audit related service impinges on the independence or objectivity of the external auditor, consideration is given to, among other things, the people doing the work, the nature of the work done and whether it involves any calculations of balances in the financial statements or for financial reporting.

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

KPMG was the external auditor for the 2019 financial year, having been automatically reappointed at the November 2018 Annual Meeting. The last key audit partner rotation was in respect of the statutory audit for the year ended 30 June 2017.

The fees paid to KPMG for audit and non-audit work for the year ended 30 June 2019 are set out on page 48 (see note 3e of the notes to the financial statements).

Internal audit

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.

Compliance with NZX Code recommendations

The Board considers that the corporate governance practices it has adopted and followed during the year comply with recommendations 7.1 (relating to establishment of a framework for the issuer's relationship with its external auditor), 7.2 (relating to external auditor attendance at Annual Meetings) and 7.3 (relating to internal audit functions) of the NZ Code.

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 Investor Newsletter;
- 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.

Cavalier:

- has a website www.cavcorp.co.nz where investors and interested stakeholders can access financial and operational information and key corporate governance information about the Company; and
- makes its notice of Annual Meeting available on its website at least 20 working days prior to the meeting.

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.

Compliance with NZX Code recommendations

The Board considers that the corporate governance practices it has adopted and followed during the year comply with recommendations 8.1 (relating to website for investors and interested stakeholders), 8.2 (relating to investor communications with the issuer), 8.3 (relating to right of shareholders to vote on major decisions which may change the nature of the issuer) and 8.5 (relating to notices of annual or special meetings) of the NZ Code.

The Board notes that recommendation 8.4 (relating to preference for a pro-rata offer in a capital raise) did not apply during the year.

DIRECTORS

The Directors of the Company as at 30 June 2019 were:

George Adams
Grant Biel
Alan Clarke
John Rae
Dianne Williams

Sarah Haydon retired from the Board on 30 October 2018.

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 (eg. 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 remuneration payable to the Directors with effect from 1 January 2019 was approved by the Board of Directors on 18 January 2019 and is set out on page 75 (note 8f of the notes to the financial statements).

Indemnity and insurance

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 2019 was $100,527 which was considered fair to the Company.

Share dealing

No notices were received from the Directors in relation to share dealing during the year.

Directors' relevant interests in shares in the Company as at 30 June 2019 were:

Alan Clarke	
Beneficial	300,000
Other	–
Grant Biel	
Beneficial	–
Other	8,567,642
Dianne Williams	
Beneficial	5,000
Other	–

INTERESTS REGISTER (continued)

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 2019 were:

George Adams	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
	Netlogix Group Holdings Limited	Chairman
	Tegel Group Holdings Limited	Director
	Competenz	Director
Grant Biel	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
Alan Clarke	Intergroup Limited	Chairman of Advisory Board
	nib nz Limited	Director
	nib nz Holdings Limited	Director
	Clarke Family Trust	Trustee and beneficiary
	Corder Family Trust	Trustee
	Jennifer Nelson Family Trust	Trustee
	Kempthorne Family Trust	Trustee
	Russell Holloway Family Trust	Trustee
John Rae	Abodo Limited	Chairman of Advisory Board
	Activate Tairawhiti 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
	Ngapuhi Asset Holding Company Limited	Director
	Oha Honey GP Limited	Chairman
	Smart Environmental Limited	Chairman
	Thos Corson Holdings Limited	Chairman
	Wet Gisborne Limited	Director
	Provincial Growth Fund	Panel Member
	JR Family Trust	Trustee

INTERESTS REGISTER (continued)

General disclosures of interest (continued)

Dianne Williams	Darden Limited	Director and shareholder
	Darden Holdings Limited	Director and shareholder
	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

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 2019 were:

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Other benefits	Total
George Adams	$58,500	6,548	–	–	–	$65,048
Grant Biel	$58,500	–	–	–	–	$58,500
Alan Clarke	$120,050	–	–	–	–	$120,050
Sarah Haydon [1]	$18,516	$2,976	–	–	–	$21,492
John Rae	$58,500	–	$5,000	–	–	$63,500
Dianne Williams	$58,500	–	–	–	–	$58,500
Total	**$372,566**	**$9,524**	**$5,000**	**–**	**–**	**$387,090**

[1] Retired from the Board on 30 October 2018.

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 2019 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	13	240,000 – 249,999	–
110,000 – 119,999	11	250,000 – 259,999	–
120,000 – 129,999	8	260,000 – 269,999	2
130,000 – 139,999	2	270,000 – 279,999	–
140,000 – 149,999	5	280,000 – 289,999	–
150,000 – 159,999	2	290,000 – 299,999	–
160,000 – 169,999	1	300,000 – 309,999	–
170,000 – 179,999	2	310,000 – 319,999	1
180,000 – 189,999	3	320,000 – 329,999	1
190,000 – 199,999	1		
200,000 – 209,999	1	490,000 – 499,999	1
210,000 – 219,999	1		
220,000 – 229,999	–	520,000 – 529,999	1
230,000 – 239,999	1		
Total number of employees			**57**

DONATIONS

Refer to page 48 (note 3e of the notes to the financial statements).

AUDIT FEES

Refer to page 48 (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:

Subsidiaries	Directors
Cavalier Bremworth Limited 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	Paul Alston
Cavalier Holdings (Australia) Pty. Limited Cavalier Bremworth Pty. Limited Kimberley Carpets Pty. Limited Norman Ellison Carpets Pty. Limited Cavalier Bremworth (Australia) Limited Cavalier Commercial Pty. Limited	Paul Alston Scott Bain

Michael Richardson resigned, and Scott Bain was appointed, as a director of Cavalier Holdings (Australia) Pty. Limited, Cavalier Bremworth Pty. Limited, Kimberley Carpets Pty. Limited, Norman Ellison Carpets Pty. Limited, Cavalier Bremworth (Australia) Limited and Cavalier Commercial Pty. Limited during the year.

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 97.

ANALYSIS OF SHAREHOLDINGS

	Number of Shareholders	%	Shares Held	%
Size of shareholdings				
Up to 199	98	3.07	8,210	0.01
200 – 499	137	4.29	46,897	0.07
500 – 999	236	7.38	165,104	0.24
1,000 – 1,999	536	16.77	738,344	1.08
2,000 – 4,999	851	26.63	2,628,984	3.83
5,000 – 9,999	554	17.33	3,698,986	5.39
10,000 – 49,999	642	20.09	12,700,926	18.49
50,000 – 99,999	68	2.13	4,408,625	6.42
Over 99,999	74	2.32	44,283,022	64.48
	3,196	**100.00**	**68,679,098**	**100.00**
Location of shareholders				
New Zealand	3,072	96.12	67,277,820	97.96
Overseas – Australia	72	2.25	997,951	1.45
– Others	52	1.63	403,327	0.59
	3,196	**100.00**	**68,679,098**	**100.00**

	Shares Held	%
Top 20 shareholders		
Marama Trading Limited	9,610,718	13.99
Rural Aviation (1963) Limited	8,567,642	12.47
Accident Compensation Corporation	3,520,000	5.13
Brian Edward Woolf and Margaret Jean Woolf	1,500,000	2.18
Forsyth Barr Custodians Limited	1,047,870	1.53
FNZ Custodians Limited	1,030,580	1.50
Fergus David Elliott Brown	1,000,000	1.46
F B Trustee Limited	1,000,000	1.46
Ian David McIlraith	800,000	1.16
Masfen Securities Limited	787,500	1.15
JPMorgan Chase Bank NA NZ Branch – Segregated Clients A/c	735,008	1.07
Percy Keith McFadzean	715,000	1.04
Andrew John Fleck	640,000	0.93
Graham James Munro and Zita Lillian Munro	575,000	0.84
Custodial Services Limited	527,927	0.77
Peter William Beasley and Anne Kathryn Beasley and Kevin Harborne	500,000	0.73
Michael Lookman and 187 Bridge Trustees 53 Limited	500,000	0.73
ASB Nominees Limited	478,607	0.70
James Ferguson Ring	450,000	0.66
William Orr and Amy Amelia Orr	435,000	0.63
	34,420,852	**50.12**

NZX WAIVER GRANTED

In September 2018, Cavalier sought and was granted a waiver from Rule 9.2.1 of the 2017 NZX Main Board Listing Rules to the extent that the Rule prohibited its:

- wholly-owned subsidiary, Cavalier Bremworth Limited ("CBL"), as the holder of Cavalier's 27.5% interest in Cavalier Wool Holdings Limited ("CWH"); and
- 50%-owned CWS Assets Limited ("CWSA")

from entering into various agreements relating to the sale of Cavalier's interest in CWH and associated property held by CWSA without shareholder approval.

The various agreements referred to above ("Agreements") were:

- an agreement relating to the sale of the shares of CWH between CBL and the other shareholders of CWH and the buyer of the shares of CWH ("Share Sale Agreement");
- an agreement relating to the sale of associated property owned by CWSA to the buyer of the shares of CWH ("Land Sale Agreement"); and
- an agreement relating to ongoing wool scouring services between CBL and CWH following the sale of the shares of CWH ("Scouring Agreement").

Shareholder approval would have been required under Rule 9.2.1 as a "Material Transaction" with a "Related Party" because:

- the purchase price to be received by CBL under the Share Sale Agreement was in excess of 10% of the average market capitalisation of Cavalier and CBL and the other shareholders of CWH had entered into a shareholders' agreement in relation to CWH, making them Related Parties;
- the Land Sale Agreement is a related transaction; and
- the services to be provided under the Scouring Agreement were expected to exceed 1% of the average market capitalisation of Cavalier so was individually a Material Transaction (as well as being part of a related series of transactions). Due to CBL's shareholding in CWH and appointment of a director of CWH, they could be considered Related Parties.

The waiver was provided on conditions that:

- the Directors of Cavalier certified to NZX Regulation that the Agreements had been entered into and negotiated on an arms' length commercial basis and, in their opinion, entry into the Agreements was fair and reasonable to, and in the best interests of, Cavalier and its shareholders;
- details of the Agreements were disclosed to the market when the Agreements were entered into; and
- the waiver, its conditions and the implications of the waiver were disclosed in Cavalier's annual report following the completion of the Agreements.

Receiving this waiver means Cavalier did not have to seek shareholder approval for entering into the Agreements.

A full copy of the waiver is available on Cavalier's website.

SUBSTANTIAL HOLDINGS

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

	Number of ordinary shares (being the only class of listed voting securities) where relevant interest exists
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 2019 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	2 p.m., Wednesday, 27 November 2019
Venue	Newmarket Room, Ellerslie Event Centre, 100 Ascot Avenue, Ellerslie, Auckland 1051

CORPORATE CALENDAR

27 November 2019	2019 Annual Meeting of shareholders
31 December 2019	End of 2020 half year
Mid-February 2020	Announcement of 2020 half year result
Mid-March 2020	Release of 2020 half year report
30 June 2020	End of 2020 financial year
Late August 2020	Announcement of 2020 annual result
September 2020	Period for director nominations
End of September 2020	Release of 2020 Annual Report

BOARD OF DIRECTORS

George Adams DipFSA(Hons), FCA, CMInstD
Independent
Deputy Chairman of the Board of Directors
Chairman of Audit Committee
Member of 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

John Rae B.Com., LLB, CMInstD
Independent
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 97040, 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

Group Financial Controller	Linda Arbuckle
General Manager Health and Safety	Kirstine Hulse
Group Information Services Manager	Trevor Jones

CARPET OPERATION

General Manager New Zealand Sales	Dean Chandler
General Manager Marketing and International Operations	Rochelle Flint
General Manager Manufacturing	Craig Wallis

WOOL OPERATION

General Manager Wool Acquisition	Shane Eades

WEBSITES

Corporate	cavcorp.co.nz
Carpet Operation	cavbrem.co.nz cavbrem.com.au normanellison.co.nz normanellison.com.au
Wool Operation	elcodirect.co.nz
Share Registrar	computershare.co.nz/investorcentre

NOTES

CAVALIER
CORPORATION