CAVALIER
CORPORATION

Annual Report 2017

Restructure
Reduce
Resize

We started FY17 with a good foundation to complete our restructuring, reduce our cost base and right-size our business. However, the challenges proved more costly and time-consuming than we anticipated, and the impact on our business, disruptive. But with the efficiency gains beginning to flow through, we go into FY18 more streamlined and competitive than before.

This Annual Report is dated 27 September 2017 and is signed on behalf of the Board of Directors by:

Sarah Haydon
Chairman

Steve Bootten
Director

CAVALIER BREMWORTH · NORMAN ELLISON CARPETS · Radford Felted Yarn New Zealand · ELCODIRECT WOOL BUYERS

Contents

Year in Brief

Revenue

$156 million, compared with previous year's $190 million – with the $34 million/ 18% reduction attributed to the wool acquisition business ($15 million), the broadloom carpet operation ($12 million, with Australia accounting for $9 million of that) and the carpet tile operation sold in early FY16 ($7 million).

Normalised loss after tax

$1.9 million loss, compared with $6.3 million profit after tax the previous year - largely as a result of the impact of significant plant consolidation, which adversely affected broadloom carpet sales, and the difficult operating environment for wool on the wool acquisition business and on earnings of 27.5%-owned wool scouring operation.

Net loss after tax

$2.1 million, with the difference between this and the normalised loss after tax of $1.9 million attributable to restructuring costs totaling $5.3 million, offset by $1.1 million from the reversal of impairment of fixed assets and $3.9 million gain on merger and dilution of its interest in the wool scouring operation.

Balance sheet

$3.7 million/10% increase in net interest-bearing debt from $36.5 million to $40.2 million, due largely to the cost to restructure manufacturing. Net interest-bearing debt : equity deteriorated from 34 : 66 to 37 : 63 as a consequence.

Plant consolidation

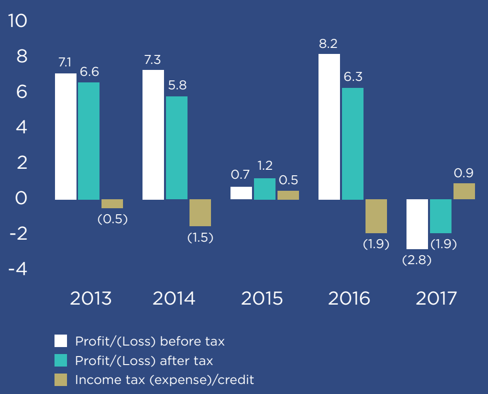
Completed the consolidation of our yarn spinning plants to better align capacity with demand for woollen carpet. As a consequence, felted yarn spinning has been relocated from Christchurch to Wanganui and all woollen yarn spinning – previously carried out in Wanganui and Napier – is now centralised at Napier.

Other strategic initiatives

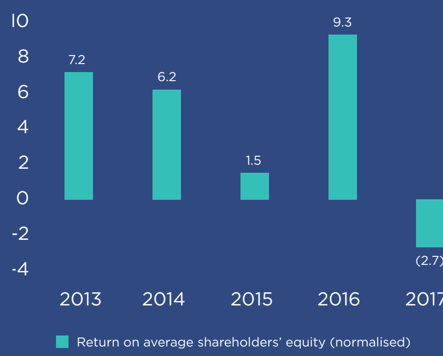
Refocused on product development and product range refreshment – supported by the recent reinvigoration of the Cavalier Bremworth brand and the significant investment in manufacturing – to underpin our more immediate goals.

Year in Brief

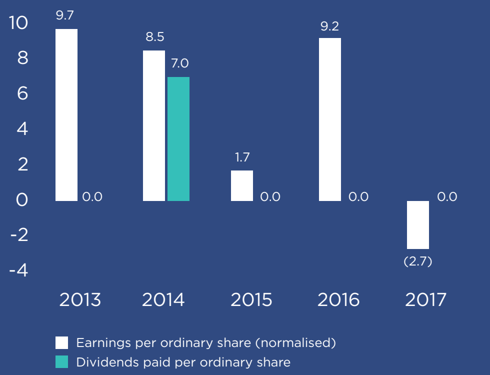
Financial results (normalised)[1]
$ millions



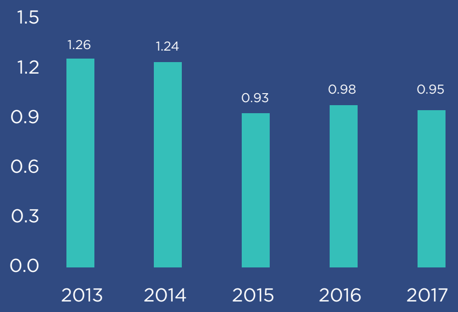
Return (normalised) on average shareholders' equity[1]
Percentage



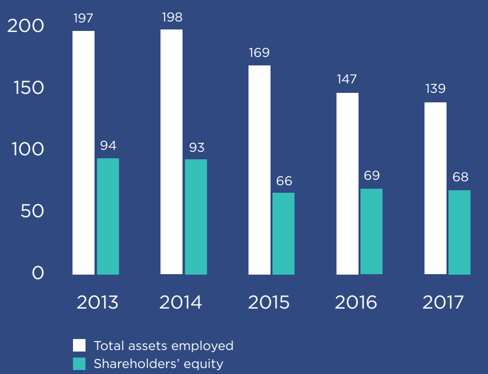
Earnings (normalised) and Dividends paid per ordinary share[1]
cents



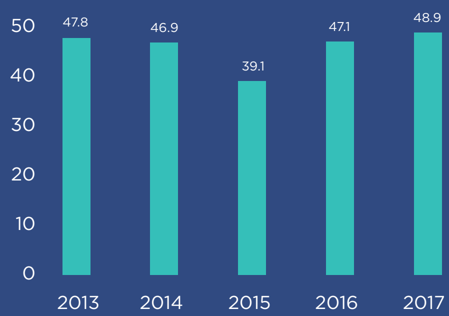
Net tangible asset backing per ordinary share
$



Total assets employed and Shareholders' equity
$ millions



Equity ratio
Percentage



[1] All references to "normalised" are to the normalised results used in the underlying calculations. Normalised is a non-GAAP (Generally Accepted Accounting Practice) measure. A reconciliation between reported and normalised can be found on pages 73 and 74 of the Annual Report.


Resilience

Chairman and Chief Executive Officer's Report

Sarah Haydon
Chairman

Paul Alston
Chief Executive Officer

FY17 was a year of significant transition for Cavalier – with restructuring to align production and sales and to reduce its cost base.

Cavalier reports a net loss after tax of $2.1 million for the year ended 30 June 2017, comprising a normalised net loss after tax of $1.9 million and one-off items netting off to $0.2 million loss after tax.

The normalised net loss after tax of $1.9 million is consistent with the guidance given to the market on 1st June 2017. This is a non-GAAP measure which excludes one-off items.

This result reflects the significant manufacturing restructuring undertaken in the last twelve months, with rationalisation and plant consolidation between Christchurch, Wanganui and Napier. This extensive programme of investment and change saw major operational and production challenges that adversely affected sales and expenditure in the period.

Notwithstanding that, good progress was made in bedding down a number of critical work programmes relating to the restructuring and, as production and efficiency improves, there are good indications that the benefit will be seen and realised going forward.

The result is that Cavalier has now consolidated woollen spinning into Napier, with considerable efficiency gains possible, and relocated felted yarn manufacture to Wanganui, allowing for growth.

Results Summary

	FY17 $000	FY16 $000
Revenue	**$156,120**	$190,371
EBITDA	**(2,232)**	9,897
EBITDA (Normalised)	**2,572**	12,275
Net profit/(loss) after tax	**(2,124)**	3,115
Net profit/(loss) after tax (Normalised)	**(1,856)**	6,313
Bank debt	**41,500**	37,700
Capital investment	**2,123**	2,076

Revenue has fallen $34 million, including $7 million due to the sale of a loss making business in FY16, $15 million in Elco Direct and $9 million in our Australian carpet business.

The dramatic drop in wool price, caused by reduced demand from China, affected our wool buying business Elco Direct, with farmers and traders holding on to wool and waiting for prices to lift, rather than selling at current low prices and incurring the cost of scouring.

Australian sales have been impacted by the spinning consolidation and a softening in the market, particularly in the second half of the year.

EBITDA has fallen by $12 million. This was mainly as a result of the fall in Australian sales, a higher average wool price coming through in stock produced in the previous year impacting margin and a significant marketing investment to successfully refresh the Cavalier Bremworth brand.

The profitability of scouring has also been hit hard in FY17, due to the recent collapse of the wool market. Our share of Cavalier Wool Holdings earnings fell by $2.2 million.

Bank debt has increased by $3.8 million in FY17.

A number of one-off items impacted the reported result, including production rationalisation costs, a non-cash gain from the consolidation of our interests in wool scouring offset by merger transaction costs and a non-cash write-back of plant and equipment. A full reconciliation is included in the financial statements.

Production Rationalisation

Following the improved FY16 performance there was a solid foundation which provided the resources required to undertake the manufacturing rationalisation to right-size Cavalier's productive capacity. This included the consolidation of woollen spinning operations from Wanganui to Napier.

Meanwhile Cavalier's proprietary woollen felted production, initially manufactured in Christchurch, was struggling to meet increasing demand particularly from the Australian market. The felted yarn facility was relocated to Wanganui, to realise efficiencies and to provide a larger operational footprint. This will allow us to meet the increasing demand for this successful felted product.

While the decision to consolidate was necessary, it proved to be more costly than estimated and the move took longer to implement. Redundancy and plant relocation expenses were in line with expectations, but the inefficiencies and disruption inherent in a major rationalisation took longer to be eliminated, affecting sales and giving rise to the one-off item reported.

The rationalisation regrettably impacted production of woollen ranges and therefore the company's ability to meet our customers' demand and our sales targets. This was particularly apparent in the Australian market where we sell a higher proportion of woollen carpets.

Banking and Covenants

Following the year end, Cavalier's banking facility has been renegotiated and we have a new facility in place for 18 months. This facility has covenants based on forecasts which Management and Directors have endorsed. The covenants have a degree of headroom should conditions soften resulting in Cavalier not meeting these forecasts.

Based on the performance of the business in FY17, where forecasts were not met due to the issues discussed above, the risk of this happening again needs to be noted. If that was to occur Cavalier may not be able to meet its banking covenants. More detailed commentary is provided in note 2 of the financial statements under the heading "Going concern".

Outlook for FY18 and Beyond

Whilst the consolidation of our manufacturing operations has cost us more and taken longer than anticipated, this is now largely behind us.

We can now move forward with a reduced cost base and an improving productive capacity, with gains expected in coming months. The capacity of our relocated felting operation is increasing and will result in our carpet business being able to meet the growing demand for new ranges utilising these innovative yarns.

In addition to the major restructuring undertaken in FY17 there have been a number of initiatives and macro factors that should positively impact the business going forward. Some will be seen in FY18 and others in FY19 onwards due to the delay between product development, manufacturing and the final sale of goods, up to six months in some cases.

While the recent and sudden plunge in the wool price had a negative impact on Cavalier this year, with reduced volumes through our wool buying and scouring businesses, the drop in wool price will have a positive impact in our core business of manufacturing and selling woollen carpets.

Our Australian business in particular is dominated by wool which makes up 60% of our sales there. As this lower cost wool moves through the production cycle it will positively impact and improve manufacturing margin.

While negatively impacting export receipts, the strength of the NZ dollar is helping with the importation of synthetic yarns which is a growing part of our production, especially for the New Zealand market. This, along with sourcing raw materials from alternative more competitive suppliers, is not only spreading our supplier risk, but will reduce manufacturing costs making us more competitive.

Our carpet business introduced new products early in the financial year. Woollen and felted carpet sales were subsequently affected by production constraints arising from the consolidation. However, we have recently started to gain traction and are seeing a steady lift in sales of these new products.

We will continue to innovate with on-going product development and range refreshment, a hallmark of the Cavalier Bremworth brand building on recent successes with new ranges launched.

Dividend

Considerable effort has gone into right-sizing our production base and positioning the Company for growth, but we have not yet reached the desired debt level relative to forecast performance.

For the next 12 months capital expenditure will be kept to a minimum and there are actions in place to reduce inventory holdings. The expected outcome of this focus, in conjunction with the initiatives to grow sales, is to reduce debt which will ultimately provide us greater flexibility in the future. The prospect of dividends is one which the Directors regularly review, however, given the FY17 performance, Cavalier is not in a position to pay a dividend.

Acknowledgements

FY17 was a very challenging year for Cavalier, with substantial changes to the business from a number of fronts. We would like to take this opportunity to thank, on behalf of the Board, both management and staff for their passion for, and unwavering commitment to, the Company and for their hard work.

We would also like to acknowledge the ongoing support of our customers, suppliers and shareholders.

Sarah Haydon
Chairman
25 September 2017

Paul Alston
Chief Executive Officer

Reward

Our Strategic Vision

Cavalier has a strategic plan covering every aspect of its business, with a number of options to improve performance and deliver shareholder value. While FY17 has not gone completely to plan, Cavalier remains steadfastly focused on these core strategic initiatives, and this is currently where it is at.

1

Strengthening the balance sheet

We need to strengthen the balance sheet to ensure the business is financially sound to not only allow us the vital headroom to invest in our core business, but also withstand the shocks that inevitably come our way from time to time.

We will do this by reducing debt. We have in place a robust debt reduction programme that is focused on cash and inventory management.

2

Investing in core business

The success of the Cavalier Bremworth broadloom carpet business is key to the success of the Company.

There is a refocus on product development and product range refreshment – supported by the recent reinvigoration of the Cavalier Bremworth brand and the significant investment in manufacturing – to underpin sales growth in all markets.

3

Reducing our cost base

We have taken the difficult, but necessary, steps to right-size our manufacturing capacity to better reflect demand.

It has not only taken us longer than anticipated to get there, but the cost has been significant and the disruption to the business immense. However, that is now largely behind us, with the focus back on fully realising the reduction to our manufacturing cost base that we set out to achieve.

4

Doing things better

Standing still is not an option. We need to do things better, whether that be some aspect of manufacturing, or of service level to our dealers and customers, or of product quality.

We remain focused on creating a culture where productivity, continuous improvement and exceptional customer service come naturally to our people.

Q&A

Paul Alston, Cavalier's CEO, talks about the challenges of the past year and the business

Q. Cavalier delivered a profit in FY16 and it felt like the Company had at last turned the corner. So what's gone wrong in FY17?

A. A number of factors have contributed to the decline in profitability when compared with FY16. But before I deal with these, I would like to first take you back to FY16 when we reduced debt significantly by selling non-performing or non-core assets to give us the headroom within our banking facility to reinvest in the core broadloom carpet business.

Foremost among these investments were the reinvigorating of the Cavalier Bremworth brand and the consolidation of our carpet yarn spinning operations.

Both required significant funding. The former involved refreshing our in-store presence and investing in the brand in New Zealand and Australia and the latter centralising the manufacturing of woollen spun yarn in Napier and moving our Christchurch felted yarn plant to Wanganui.

I will talk about the brand investment later on, but let's deal with the manufacturing consolidation where we did not anticipate the extent of the disruptions from the consolidation and the flow on effect into the rest of the business. In short, it cost us more and took us longer to get to the volumes required from the plants to meet sales demand. We lost sales as a result – and ended up undoing some of the gains we were starting to record in FY16.

At the same time, the carpet business also had to contend with the significantly higher wool prices in FY16 that were being brought forward in carpet inventory into FY17 and the stronger NZD:AUD which impacted the translation of our Australian revenues.

Wool prices also collapsed in FY17, largely due to a lack of demand from China. This adversely impacted both our wool buying business and our 27.5% interest in wool scouring – with volumes well down on FY16 as both wool growers and exporters scaled back their activities.

On the flip side, lower wool price is a plus for the carpet business, but because of the quantity of wool in our manufacturing pipeline, we did not see much of that benefit in FY17.

Q. How come these challenges are taking so long to put right?

A. You have to appreciate that the carpet industry has undergone significant change in what has been a relatively short period of time.

And we have had to adjust our business model and our strategic approach – covering every aspect of our business – to fit, while also grapple with the other external factors facing the Company.

As a result, things will not necessarily always go to plan – which is something we acknowledged last year when we said that while the benefits were starting to show, there was still much to be done and many challenges lay ahead.

FY17 is one such year – a setback if you like – but we remain totally focused on the tasks at hand.

Q. Why was the Company so unaware of the full financial impact until quite a long way into the year?

A. The consolidation of manufacturing was a massive undertaking and adversely impacted the business - both in terms of the cost involved and the sales we lost as a consequence of the disruption to our supply chain.

While we had what we thought was a robust plan for the project – which saw us come within budget and on time in terms of our plant relocation programme - we underestimated the complexity and disruption of fitting two woollen yarn spinning operations onto one site.

In the end and even though we met our targets for the relocation itself, the Napier plant just required more time to get to the volumes that were expected of it - consistently and efficiently.

> *"The consolidation of manufacturing was a massive undertaking and adversely impacted the business."*

At the same time, the unprecedented collapse in the wool price and its impact on the wool businesses continued for a lot longer than we were anticipating. It is always easy with the benefit of hindsight, but feedback we were getting from the wool exporters earlier in the year was pointing to a recovery in the wool market. Unfortunately, that proved to be premature, and the market remains subdued.

Q. When will the Company get back to sustainable on-going profitability and growth with dividends for shareholders?

A. Now that we have the consolidation of manufacturing largely behind us and are producing the volumes we have set for ourselves, we can start to focus on plant efficiency and continuous improvement to deliver the reduction to our manufacturing cost base.

> *"We need to address our balance sheet or, to be more precise, we need to reduce debt."*

The benefits of the lower wool price will also start to progressively flow through in improved margins, particularly in Australia, where woollen carpet sales remain relatively strong.

There are also other initiatives that are at various stages that should improve results.

The Company's position on dividends remains unchanged. Dividend payments will commence as soon as the Company is able to demonstrate consistency in earnings.

Q. What is the strategy to return the Company to sustained profitability?

A. We need to address our balance sheet or, to be more precise, we need to reduce debt.

We also need to continue to invest in our core Cavalier Bremworth broadloom carpet business – and I have already covered this in some detail.

Finally and just as important, we need to keep looking for ways to reduce our cost base and to do things better.

The strategic direction is very clear in my mind – it has been for some time.

And while we did not do well in FY17 and have had to change how we do certain things, the strategic direction we have set for ourselves remains unchanged.

Q. What is the Company doing to insulate itself from the external factors it can't control, like the NZD:AUD and wool price?

A. While Cavalier has a comprehensive Board-approved treasury management policy and adopts best practice when it comes to managing its currency risks, it is challenging trying to insulate the business from what has now been a fairly lengthy period of sustained strengthening of the NZD:AUD.

Carpet Wool Price Indicator
cents per kg (clean on floor)

With wool, there is no futures market so we cannot take out hedges like we can with currency. We therefore have to rely on supply contracts which allow us some price protection for up to one year generally, even though we do try from time to time when circumstances dictate to contract further out.

In the longer term, the solution for New Zealand manufacturers like Cavalier is to continue to find ways to reduce their cost base and improve productivity to lessen the impact of these largely uncontrollable factors.

Q. Why has the Company's management structure undergone changes in the last year and what is being done to bring consistency and stability to the senior management team?

A. Changes in management teams happen everywhere as people look for further opportunities and as their own personal circumstances change. That is beyond our control.

What is more important is that Cavalier has, at any point in time, the people who collectively have all the required skills and experience to contribute to its success and to see that the strategic plans that we have put in place are attained.

To that extent, I am confident, and it is my job to ensure that amidst all the differences in background, experience and diversity that they have, they work as a team.

Q. Has the marketing campaign to reinvigorate the Cavalier Bremworth brand that you spoke about last year been successful?

A. It depends on what measure one uses when determining the success of the marketing campaign. If it is in terms of feedback from the carpet retailers and the end-consumer, it has been a success.

However, if I were to look at it from a sales perspective, it has not generated the incremental sales that I was looking for.

But to be fair, that campaign was also just as much about reinvigorating the Cavalier Bremworth brand, and in this regard, I am happy that we achieved what we set out to do.

Q. Does Cavalier have any new ideas or initiatives in the pipeline that we can look forward to hearing about?

A. We are always working on new ideas or initiatives, whether that be some aspect of manufacturing efficiency or of customer service or of quality.

I have to admit that some ideas are better than others, but what is more important is the culture that encourages our people to think laterally and allows people to freely put forward their thoughts.

The one initiative I want to particularly share with you is the refocus on product development and product range refreshment. We have a number of exciting new products that we are working on across all three yarn types and featuring a number of styles. Obviously, you will see a strong focus on our felted yarns where their uniqueness is allowing us to design products that will give us that competitive edge.

Q. What is the growth potential for carpets in Australia?

A. Australia is a massive market and we are currently a very small player in that market.

This is despite the brand recognition that Cavalier Bremworth enjoys, particularly at the mid to premium end of the market, so there are plenty of opportunities to grow.

I am confident that one of the answers to our growth strategy lies in Australia where we will continue to innovate and lead the competitors with new products – while supporting our dealer base with exceptional service.

Q. Are you concerned about the level of bank debt the Company is currently carrying especially in light of the operating loss and the negative cash flow from operations in FY17?

A. Bank debt is high due largely to the cash required to reinvest in the brand and the restructuring of manufacturing in FY17.

However, what is more important and relevant right now is that we have very robust plans in place to address that. We are carrying more inventory than we need to support the business and the steps we have put in place to address that will lead to a reduction in bank debt reasonably quickly – as will the steps being taken to reduce cost and increase profitability.

Q. What's the relationship with the Bank like and can you execute your strategy while delivering the debt reduction targets agreed?

A. We have a very good working relationship with our Bank who has supported us through the difficult and costly consolidation process this year. The renewed bank facility fully recognises the strategy and plan that we have in place for FY18 and beyond, including our debt reduction programme.

Q. What are the benefits from the CWH merger of wool scouring to both Cavalier and New Zealand?

A. It is obvious, faced with the decline in sheep numbers in New Zealand and the significantly reduced amount of wool to be processed, that consolidation of scouring was essential for the survival of the industry. So, I continue to be amazed at how long it took CWH to get regulatory approval.

You only need to look at what happened in Australia where there is now virtually no onshore processing of wool.

The benefits of the merger will come from the more efficient scouring of wool through two specially-dedicated plants – one in each Island.

Board of Directors

G C W (Grant) Biel

B.E. (Mech.)

Grant Biel is a non-independent Director and has been on the Cavalier Board since July 1984. He is also a member of the Board's Audit, Remuneration and Nomination Committees.

Grant is a co-founder of the Cavalier Bremworth broadloom carpet operation and held the position of executive Director from July 1984 to September 1995. His other directorships include Auckland Air Charter Limited, Heli Harvest Limited and Westburn Investments Limited.

S R (Steve) Bootten

ACA, FCIS, FCIM, MInstD

Steve Bootten is an independent Director and joined the Cavalier Board in July 2015. He is Chairman of the Board's Audit Committee and also serves on the Board's Remuneration and Nomination Committees.

Steve has a background in finance and accounting and has held senior finance and general management roles in large manufacturing and distribution companies with strong brands.

He is currently a director of Auckland Regional Amenities Funding Board, Blackspace Limited and Framecad Holdings Limited and Chairman of Black Interiors Limited.

S E F (Sarah) Haydon

B.Sc., FCA, CMInstD

Sarah Haydon is an independent Director and has been on the Cavalier Board since August 2012. She was appointed Chairman of the Board in July 2015.

Sarah is also Chairman of the Board's Nomination Committee and serves on the Board's Audit and Remuneration Committees. She has a strong financial, commercial and leadership background.

Sarah is currently a director of Ports of Auckland Limited, The Co-operative Bank Limited, Co-operative Life Limited, The Institute of Geological and Nuclear Sciences Limited and Wairaka Land Company Limited, a Council Member of Unitec Institute of Technology and Chairman of New Zealand Riding for the Disabled Association.

D V (Dianne) McAteer

B.Com., MBA, CMInstD

Dianne McAteer 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 with Cadbury, Sealord and Watties - driving market dominance for some of New Zealand's favourite brands - before taking up senior executive roles with companies demanding strong sales and marketing programmes.

She is currently Chairman of Beds R Us and Netball Northern Zone and a director of Chartered Accountants Australia New Zealand, Northcote Rd 1 Holdings Limited, Public Trust, Pulse Gp Limited and West Auckland Trust Services Limited.

J M (John) Rae

B.Com., LLB, CMInstD

John Rae is an independent Director and joined the Cavalier Board in July 2015. He is Deputy Chairman of the Board, Chairman of the Board's Remuneration Committee and a member of the Board's Audit and Nomination Committees.

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

He is an experienced company director, currently Chairman of Activate Tairawhiti Limited, The National Infrastructure Advisory Board, Smart Environmental Limited and Thos Corson Holdings Limited and director of Corson Grain Limited, the Eastland Group of companies, The Lines Company Limited and Ngapuhi Asset Holding Company Limited.

Safe home every day – our work place health and safety programme – is about encouraging us all to look out for each other in the work place. It is, in many respects, not only about health and safety, but also about how we treat each other and about creating a work environment that is fun, rewarding and positive every day.

Matekino Heremaia
Tufter Operator, Auckland tufting plant

Financial Statements

For the year ended 30 June 2017

Directors’ Responsibility Statement

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 complied with.

ACCOUNTING RECORDS

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

SAFEGUARDING OF ASSETS AND INTERNAL CONTROLS

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

FINANCIAL STATEMENTS

The Directors present, on pages 24 to 68, the Group financial statements for the year ended 30 June 2017.

These financial statements were authorised for issue by the Directors on 22 August 2017 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

S E F Haydon
Chairman of the Board of Directors

S R Bootten
Director

KPMG

TO THE SHAREHOLDERS OF CAVALIER CORPORATION LIMITED

Report on the consolidated financial statements

OPINION

In our opinion, the accompanying consolidated financial statements of Cavalier Corporation Limited ('the Company') and its subsidiaries ('the Group') on pages 24 to 68:

i. present fairly in all material respects the Group's financial position as at 30 June 2017 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 2017;

– the consolidated income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended; and

– notes, including a summary of significant accounting policies and other explanatory information.

BASIS FOR OPINION

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

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

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

Our firm has also provided other services to the Group in relation to transfer pricing tax advice 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 financial statements, which indicates there is a material uncertainty concerning the Group's ability to achieve financial forecasts and generate sufficient cash flows from operations to ensure the Group will be able to comply with its financial covenants and debt repayment obligations over the term of the facility agreement. 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 section, 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
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. 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 with regards 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 for the cost of such inventory items. Consequently, we focused on the valuation of inventory as part of our audit.	We evaluated the valuation of inventory by performing the following audit procedures: – Observed the condition of inventory as part of our physical inventory count procedures. – Assessed the Group's methodology for identifying slow moving and obsolete inventories, taking into consideration the nature of the inventory and the Group's inventory rationalisation plans. – Obtained management's calculation of net realisable value for slow moving and obsolete inventories and compared it to historical sales and margin reports. We also assessed key assumptions for reasonableness and corroborated with explanations provided by sales and inventory managers. – Reviewed and tested underlying sales and inventory cost reports. We did not identify material exceptions from procedures performed, and found the judgements and assumptions to be balanced and consistent with our understanding of the nature and intended use of the inventory.

Impairment of non-current assets (Carpets CGU)

Refer to Notes 5a and 5c to the financial statements.

As at 30 June 2017 the carrying amount of property, plant and equipment ('PP&E') and goodwill relating to the Carpets cash generating unit ('CGU') was $35,743,000 and $2,362,000, respectively.

The Group incurred a loss after tax of $2,124,000 and incurred an operating cash flow deficit of $5,373,000 for the year ended 30 June 2017. The Carpets segment represents the largest CGU of the Group which contributed significantly to the loss of the Group. Additionally, the Group's market capitalisation of $24,038,000 is significantly below the carrying value of its net assets of $67,890,000 as at 30 June 2017.

These two features are indicators of potential impairment of PP&E and goodwill allocated to the Carpets CGU.

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

As disclosed in Note 5a and 5c, the Group uses a Discounted Cash Flow (DCF) model to determine the recoverable amount of the Carpets CGU to which the goodwill and PP&E has been allocated. In performing this assessment, assumptions are made in respect of future economic and market conditions, such as forecast sales volumes, expected sales fluctuations, production efficiencies arising from the consolidation of the spinning assets, 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.

Due to the magnitude of goodwill and PP&E allocated to the Carpet CGU, and the judgement involved in assessing the CGU for impairment, we considered impairment of goodwill and PP&E to constitute a key audit matter.

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

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

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

Valuation of equity-accounted investees

Refer to Note 8a to the financial statements.

On 31 December 2016 Cavalier Wool Holdings Limited ('CWH') merged its operations with New Zealand Wool Services International Limited ('WSI') by acquiring Whakatu Wool Scour Ltd and Kaputone Wool Scour (1994) Ltd. As a consequence the Group's ownership interest in CWH was diluted from 50% to 27.5% resulting in the recognition by the Group of an accounting gain on dilution of $3,929,000.

In 2017 the profitability and processing volumes of CWH have reduced significantly due to adverse market conditions, including a significant and prolonged reduction in the market price for wool. This was considered an indicator of impairment and as a result management of CWH performed an impairment assessment of goodwill and non-current assets as at 30 June 2017. Management of the Group assessed the recoverable amount of the Group's equity-accounted investment in CWH.

Accounting for the transaction and assessment of the impairment was considered a key audit matter as judgement was involved in determining the fair value of the shares of the combined entity, and in determining key assumptions in the discounted cash flows. In particular, uncertainty exists around the future market structure, processing volumes and tariffs, lanolin prices, and judgement is involved in determining a terminal growth rate and discount rate.

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

- Obtained sale and purchase agreements and evaluated the accounting treatment of the business combination.
- Challenged management's determination of the fair value of shares of the combined entity as at 31 December 2016, including the use of valuation specialists in the audit team.
- Evaluated the impairment testing performed by management, assessing methodologies, data and assumptions used in the discounted cash flow model. We involved our valuation specialists in this evaluation process.
- Challenged management's cash flow assumptions in the impairment model, including projected processing volumes, scouring tariff rates, and lanolin prices against historical actuals and forecast market information.
- Performed sensitivity analyses on the key assumptions used in the impairment model.

We did not identify material exceptions from procedures performed, and found the judgements and assumptions used in the assessment of the equity accounted investees' carrying value to be balanced.

OTHER INFORMATION

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

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

USE OF THIS INDEPENDENT AUDITOR'S REPORT

This 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 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:

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page1.aspx

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

KPMG

Aaron Woolsey

For and on behalf of

KPMG
Auckland

22 August 2017

Income Statement

For the year ended 30 June 2017

	Note	2017 $000	2016 $000
Revenue	3c	156,120	190,371
Cost of sales		(126,243)	(150,120)
Gross profit		**29,877**	**40,251**
Other income and gains	3d	21	4,308
Distribution expenses		(24,656)	(24,665)
Administration expenses	3e	(5,921)	(6,658)
Impairment of fixed assets	5a	–	(2,184)
Restructuring costs		(6,309)	(4,507)
Reversal of impairment of fixed assets	5a	1,505	–
Results from operating activities		**(5,483)**	**6,545**
Net finance costs	3g	(2,936)	(3,374)
Share of profit of equity-accounted investee (net of income tax)	8a	59	2,232
Gain on merger and dilution of equity-accounted investee		3,929	–
Profit/(Loss) before income tax		**(4,431)**	**5,403**
Income tax benefit/(expense)	3h	2,307	(2,288)
Profit/(Loss) after tax for the period		**$(2,124)**	**$3,115**
Basic and diluted earnings per share (cents)	3b	**(3.1)**	**4.5**

This statement is to be read in conjunction with the notes on pages 31 to 68.

Statement of Comprehensive Income

For the year ended 30 June 2017

	Note	2017 $000	2016 $000
Profit/(Loss) after tax for the period		**(2,124)**	**3,115**
Other comprehensive income that may be reclassified subsequently to profit or loss			
Effective portion of changes in fair value of cash flow hedges		799	(443)
Net change in fair value of cash flow hedges transferred to profit or loss		104	367
Income tax on changes in fair value of cash flow hedges	3h	(253)	22
Share of fair value of cash flow hedges (net of tax) of equity-accounted investee	8a	(3)	256
Foreign currency translation differences for foreign operations		6	(140)
		653	**62**
Other comprehensive income not reclassified subsequently to profit or loss		**–**	**–**
Other comprehensive income for the period, net of income tax		**653**	**62**
Total comprehensive income for the period		**$(1,471)**	**$3,177**

This statement is to be read in conjunction with the notes on pages 31 to 68.

Statement of Changes in Equity

For the year ended 30 June 2017

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

This statement is to be read in conjunction with the notes on pages 31 to 68.

Statement of Changes in Equity (continued)

For the year ended 30 June 2017

	Note	Share Capital $000	Cash Flow Hedging Reserve $000	Foreign Currency Translation Reserve $000	Share Rights Reserve $000	Retained Earnings $000	Total Equity $000
Total equity at 1 July 2015		$21,846	$(1,171)	$(1,285)	$1,448	$45,346	$66,184
Total comprehensive income for the period							
Profit/(Loss) after tax		–	–	–	–	3,115	3,115
Other comprehensive income that may be reclassified subsequently to profit or loss							
Changes in fair value of cash flow hedges (net of tax)		–	(54)	–	–	–	(54)
Share of fair value of cash flow hedges (net of tax) of equity-accounted investee	8a	–	256	–	–	–	256
Foreign currency translation differences for foreign operations		–	–	(140)	–	–	(140)
		–	**202**	**(140)**	**–**	**–**	**62**
Other comprehensive income not reclassified subsequently to profit or loss		–	–	–	–	–	–
Total other comprehensive income		**–**	**202**	**(140)**	**–**	**–**	**62**
Total comprehensive income for the period		**–**	**202**	**(140)**	**–**	**3,115**	**3,177**
Transactions with owners, recorded directly in equity							
Transfer on expiry of executive share rights	4b	–	–	–	(1,448)	1,448	–
Total equity at 30 June 2016		**$21,846**	**$(969)**	**$(1,425)**	**–**	**$49,909**	**$69,361**

This statement is to be read in conjunction with the notes on pages 31 to 68.

Statement of Financial Position

As at 30 June 2017

	Note	2017 $000	2016 $000
ASSETS			
Property, plant and equipment	5a	37,123	36,820
Goodwill	5c	2,362	2,362
Investment in equity-accounted investee	8a	23,490	23,175
Deferred tax asset	3h	5,532	3,496
Total non-current assets		**68,507**	**65,853**
Cash and cash equivalents	6a	1,255	1,200
Trade receivables, other receivables and prepayments	6b	17,261	21,723
Inventories	6c	50,635	57,733
Derivative financial instruments	7	898	867
Tax receivable		301	–
Total current assets		**70,350**	**81,523**
Total assets		**$138,857**	**$147,376**
EQUITY			
Share capital	4b	21,846	21,846
Cash flow hedging reserve	4b	(322)	(969)
Foreign currency translation reserve	4b	(1,419)	(1,425)
Retained earnings		47,785	49,909
Total equity		**67,890**	**69,361**
LIABILITIES			
Loans and borrowings	4c	35,000	37,700
Employee benefits	8c	1,097	1,237
Deferred income		18	84
Provisions	8b	2,613	3,140
Total non-current liabilities		**38,728**	**42,161**
Loans and borrowings	4c	6,500	–
Trade creditors and accruals	6d	18,855	22,779
Provisions	8b	1,693	4,060
Employee entitlements		3,832	4,370
Deferred income		67	67
Derivative financial instruments	7	1,292	2,132
Provision for tax		–	2,446
Total current liabilities		**32,239**	**35,854**
Total liabilities		**70,967**	**78,015**
Total equity and liabilities		**$138,857**	**$147,376**

This statement is to be read in conjunction with the notes on pages 31 to 68.

Statement of Cash Flows

For the year ended 30 June 2017

	Note	2017 $000	2016 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		159,855	197,559
Cash paid to suppliers and employees		(159,518)	(192,454)
		337	**5,105**
Dividends received		1	2
Other receipts		4	25
GST (paid)/refunded		(73)	730
Interest paid		(2,912)	(3,303)
Income tax paid		(2,730)	(655)
Net cash flow from operating activities		**(5,373)**	**1,904**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		90	11,514
Proceeds from sale of tile business		–	1,798
Acquisition of property, plant and equipment	5a	(2,123)	(2,076)
Purchase consideration of non-controlling interests		–	(91)
Dividends received from equity-accounted investee	8a	3,670	4,250
Net cash flow from investing activities		**1,637**	**15,395**
CASH FLOWS FROM FINANCING ACTIVITIES			
Movements in bank borrowings	4c	3,800	(18,796)
Net cash flow from financing activities		**3,800**	**(18,796)**
Net increase/(decrease) in cash and cash equivalents		**64**	**(1,497)**
Cash and cash equivalents at beginning of the period		1,200	2,834
Effect of exchange rate changes on cash		(9)	(137)
Cash and cash equivalents at end of the period		**$1,255**	**$1,200**

This statement is to be read in conjunction with the notes on pages 31 to 68.

Statement of Cash Flows (continued)

For the year ended 30 June 2017

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

	2017 $000	2016 $000
Profit/(Loss) after tax for the period	**(2,124)**	**3,115**
Add/(Deduct) non-cash items:		
Depreciation	3,251	3,352
Recognition/(Reversal) of impairment of fixed assets	(1,505)	2,184
Share of profit of equity-accounted investee	(3,988)	(2,232)
Increase in deferred tax assets	(2,289)	(2,054)
Employee benefits	(140)	(389)
Deferred income	(66)	(73)
Provisions	(2,894)	2,600
Net gain on sale of property, plant and equipment	(16)	(4,281)
Net loss on foreign currency balance	12	104
Changes in working capital items:		
Trade and other receivables	4,466	8,235
Inventories	7,099	(8,232)
Tax payable/receivable	(2,747)	3,687
Trade creditors and accruals	(4,465)	(4,342)
Derivative financial instruments	33	230
Net cash flow from operating activities	**$(5,373)**	**$1,904**

This statement is to be read in conjunction with the notes on pages 31 to 68.

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 2017.

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 carpet sales and manufacturing and wool acquisition. Following the consolidation of the Group's yarn spinning operations during the year ended 30 June 2017, the Radford Yarn Technologies operation is now treated as a part of the carpet business and is accordingly reported under the carpets segment.

All Group subsidiaries are wholly-owned.

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

2. GENERAL INFORMATION RELATING TO PREPARATION OF FINANCIAL STATEMENTS

Statement of compliance

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

Basis of preparation

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

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

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

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

Going concern

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

For the year ended 30 June 2017, the Group made a loss after tax of $2,124,000 and generated a cash flow deficit from operations of $5,373,000.

On 22 August 2017, the Group refinanced its funding facilities which reestablished a number of financial covenants, including revenue, normalised profitability, inventory and debt levels and financial gearing.

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

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

Going concern (continued)

Management forecasts the Group's financial performance, cash flows and financial position as part of its management and monitoring of the Group's operations and to ensure 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, assumptions are made in respect of:

(i) future economic and market conditions, competitor activity and, as a consequence, sales volume and margin;

(ii) the performance of the Group's manufacturing plants and, in particular, its recently-consolidated yarn spinning plants;

(iii) its inventory rationalisation programme;

(iv) the NZD:AUD and NZD:USD exchange rates, after taking into account hedged positions;

(v) wool prices and other raw material costs; and

(vi) other cost-reduction initiatives.

The Directors note that these financial forecasts are particularly sensitive to the Group achieving forecast sales volumes and successfully addressing manufacturing performance following the consolidation of the Group's spinning plants.

As a consequence, the Directors believe 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 continue as a going concern.

The Directors have implemented a number of initiatives to address this uncertainty including:

(i) renegotiating its funding facilities and resetting underlying financial covenants to reflect current operating conditions;

(ii) appointment of an independent accountancy firm to review the financial forecasts and assess the underlying assumptions for reasonableness and to perform monthly analysis of actual results, with reporting to the Bank;

(iii) appointment of a leading independent corporate advisory group to assist the Directors with investigating and, if appropriate, developing alternative plans which include, but are not limited to, raising additional capital and sale of non-core assets;

(iv) engagement of a consultant to conduct a comprehensive review of the Group's strategy;

(v) plans to grow sales by focusing on its in-store presence, supply chain improvements and on-going product development and range refreshment in order to lead the market; and

(vi) initiatives to reduce the cost base.

Should the Group not achieve its forecast profitability 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 of Directors consider the Group to be a going concern and believe that it will be able to meet its contractual obligations as further discussed 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

There have been no changes to accounting policies.

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

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

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

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

- Note 2 – going concern
- Note 3h – measurement and recoverability of tax losses
- Note 5a – property, plant and equipment
- Note 5c – goodwill
- Note 6c – inventory provisioning
- Note 8a – equity-accounted investee
- 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 2017 and the results of all subsidiaries for the year then ended. Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

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

New and amended accounting standards adopted

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

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:

- carpets, which, following the consolidation of the Group's yarn spinning operations, comprises the sales and manufacturing of carpets and felted yarn spinning activities previously reported under Radford Yarn Technologies Limited (as a consequence of which the comparatives are marked as "Restated" where relevant); and
- wool acquisition.

An operating segment is a component of the Group:

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

Inter-segment transactions

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

Geographical areas

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

	2017 $000	2016 $000
Revenue		
New Zealand	88,759	105,714
Australia	60,224	76,406
Rest of the world	7,137	8,251
	$156,120	**$190,371**

	As at 30 June 2017 $000	As at 30 June 2016 $000
Non-current assets		
New Zealand	65,946	63,421
Australia	2,561	2,432
	$68,507	**$65,853**

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	
	2017 $000	2016 Restated $000	2017 $000	2016 $000	2017 $000	2016 Restated $000
External revenue	131,600	150,642	24,520	39,729	156,120	190,371
Inter-segment revenue	–	–	4,501	7,975	4,501	7,975
Total revenue	**$131,600**	**$150,642**	**$29,021**	**$47,704**	**160,621**	**198,346**
Elimination of inter-segment revenue					(4,501)	(7,975)
Consolidated revenue					**$156,120**	**$190,371**
Segment result before depreciation and restructuring related expenses and gains	3,476	12,178	535	1,331	4,011	13,509
Depreciation	(3,146)	(3,251)	(105)	(101)	(3,251)	(3,352)
Segment result before restructuring	**330**	**8,927**	**430**	**1,230**	**760**	**10,157**
Gain on sale of property, plant and equipment	–	4,313	–	–	–	4,313
Restructuring costs	(6,309)	(4,507)	–	–	(6,309)	(4,507)
Reversal/(Recognition) of impairment of fixed assets	1,505	(2,184)	–	–	1,505	(2,184)
Segment result after restructuring	**(4,474)**	**6,549**	**430**	**1,230**	**(4,044)**	**7,779**
Elimination of inter-segment profits					61	166
Unallocated corporate costs					(1,500)	(1,400)
Results from operating activities					**(5,483)**	**6,545**
Net finance costs					(2,936)	(3,374)
Share of profit of equity-accounted investee (net of income tax)					59	2,232
Gain on merger and dilution of equity-accounted investee					3,929	–
Profit/(Loss) before income tax					**(4,431)**	**5,403**
Income tax expense					2,307	(2,288)
Profit/(Loss) after tax for the period					**$(2,124)**	**$3,115**

3. FINANCIAL PERFORMANCE (continued)

3a. Segment performance (continued)

	Carpets		Wool Acquisition		Total	
	2017 $000	2016 Restated $000	2017 $000	2016 $000	2017 $000	2016 $000
Reportable segment assets	113,134	120,229	2,233	3,972	115,367	124,201
Investment in equity-accounted investee					23,490	23,175
Total assets					**$138,857**	**$147,376**
Capital expenditure	1,970	1,894	153	182	**$2,123**	**$2,076**
Reportable segment liabilities	28,149	37,450	1,318	2,865	29,467	40,315
Unallocated liabilities					41,500	37,700
Total liabilities					**$70,967**	**$78,015**
Employee numbers						
Operations	455	529	24	27	479	556
Unallocated					4	5
Total employee numbers					**483**	**561**

3b. Earnings per share

Basic and diluted earnings per share (EPS)

	2017	2016
Profit/(Loss) after tax attributable to shareholders of the Company ($000)	(2,124)	3,115
Weighted average number of ordinary shares outstanding	68,679,098	68,679,098
Basic and diluted EPS (cents)	**(3.1)**	**4.5**

3. FINANCIAL PERFORMANCE (continued)

3c. Revenue

	2017 $000	2016 $000
Sales of goods		
Carpet	129,001	146,345
Wool	24,520	39,729
Yarn	2,127	3,881
	155,648	**189,955**
Provision of installation services	472	416
Total revenue	**$156,120**	**$190,371**

Sale of goods

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

Provision of services

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

3d. Other income and gains

	2017 $000	2016 $000
Rentals received	4	25
Dividends received	1	2
Net gain on sale of property, plant and equipment	16	4,281
Total other income and gains	**$21**	**$4,308**

3e. Administration expenses

The following items of expenditure are included in administration expenses:

	2017 $000	2016 $000
Donations	**$3**	**$4**
Fees paid to KPMG for:		
Audit and review of financial statements	285	186
Tax services	17	20
Other services	5	5
Total fees paid to KPMG	**$307**	**$211**
Adjustment to prior year audit fee	**–**	**$101**

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

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

3. FINANCIAL PERFORMANCE (continued)

3f. Personnel expenses

	2017 $000	2016 $000
Directors' fees	331	328
Wages, salaries, bonuses and holiday pay	37,819	38,424
Employee termination benefits	–	3,377
Employee benefits	3,009	3,089
Increase/(Decrease) in liability for retiring allowances and long service leave	(99)	197
Total personnel expenses	**$41,060**	**$45,415**

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

3g. Net finance costs

	2017 $000	2016 $000
Interest income	28	11
Interest expense	(2,964)	(3,385)
Net finance costs	**$(2,936)**	**$(3,374)**

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

	2017 $000	2016 $000
Income tax expense/(benefit) in the income statement		
Current tax expense/(benefit)		
Current period	372	4,243
Adjustment for prior periods	(390)	99
	(18)	**4,342**
Deferred tax expense/(benefit)		
Origination and reversal of temporary differences	(2,679)	(2,379)
Adjustment for prior periods	390	325
	(2,289)	**(2,054)**
Income tax expense/(benefit)	**$(2,307)**	**$2,288**
Reconciliation of effective tax rate		
Profit/(Loss) after tax for the period	(2,124)	3,115
Income tax expense/(benefit)	(2,307)	2,288
Profit/(Loss) excluding income tax	**$(4,431)**	**$5,403**

3. FINANCIAL PERFORMANCE (continued)

3h. Income tax (continued)

	2017 $000	2016 $000
Income tax using the Company's domestic tax rate of 28% (2016: 28%)	(1,241)	1,513
Deferred tax asset derecognised	–	274
Share of equity-accounted investee's profit after tax	(17)	(625)
Gain on merger and dilution of equity-accounted investee	(1,100)	–
Non-deductible expenses	26	51
Effect of tax rate difference in foreign jurisdiction	26	122
Overprovided in prior periods	–	99
Impact from sale of Australian property	–	984
Other	(1)	(130)
Income tax expense/(benefit)	**$(2,307)**	**$2,288**
Income tax recognised directly in equity		
Derivative financial instruments	253	(22)
Income tax on income and expense recognised directly in equity	**$253**	**$(22)**
Imputation credits		
Imputation credits available to shareholders of the Company	**$9,391**	**$7,862**

Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2017 $000	2016 $000	2017 $000	2016 $000	2017 $000	2016 $000
Property, plant and equipment	–	–	(3,004)	(2,323)	(3,004)	(2,323)
Derivatives	–	388	–	(390)	–	(2)
Inventories	778	1,148	–	–	778	1,148
Employee benefits	1,225	1,431	–	–	1,225	1,431
Provisions	2,041	3,242	–	–	2,041	3,242
Tax loss carry-forwards	4,492	–	–	–	4,492	–
Net tax assets/(liabilities)	**$8,536**	**$6,209**	**$(3,004)**	**$(2,713)**	**$5,532**	**$3,496**

Deferred tax assets have not been recognised in respect of deductible temporary differences and tax loss totalling $24,178,000 (2016: $23,549,000) because 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 1 July 2016 $000	Recognised in profit or loss $000	Recognised in equity $000	Effect of exchange rate change $000	Balance 30 June 2017 $000
Property, plant and equipment	(2,323)	(681)	–	–	(3,004)
Derivatives	(2)	255	(253)	–	–
Inventories	1,148	(370)	–	–	778
Employee benefits	1,431	(207)	–	–	1,224
Provisions	3,242	(1,200)	–	–	2,042
Tax loss carry-forwards	–	4,492	–	–	4,492
Total	**$3,496**	**$2,289**	**$(253)**	**–**	**$5,532**

	Balance 1 July 2015 $000	Recognised in profit or loss $000	Recognised in equity $000	Effect of exchange rate change $000	Balance 30 June 2016 $000
Property, plant and equipment	(3,686)	1,336	–	27	(2,323)
Derivatives	112	(136)	22	–	(2)
Inventories	669	477	–	2	1,148
Employee benefits	1,493	(65)	–	3	1,431
Provisions	2,108	1,134	–	–	3,242
Tax loss carry-forwards	692	(692)	–	–	–
Total	**$1,388**	**$2,054**	**$22**	**$32**	**$3,496**

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

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

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

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

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 of Directors 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 of Directors.

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

Consistent with best practice, the Group monitors capital on the basis of 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:

	2017 $000	2016 $000
Total loans and borrowings, including current portion	41,500	37,700
Plus bank overdraft	–	–
Less cash and cash equivalents	(1,255)	(1,200)
Net debt	**40,245**	**36,500**
Total equity	67,890	69,361
Total capital employed	**$108,135**	**$105,861**
Leverage	**37.2%**	**34.5%**

4. FUNDING (continued)

4b. Share capital, dividends and reserves

Share capital

	2017	2016
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 (2016: Nil).

The Directors have not declared a final dividend in respect of the current year ended 30 June 2017 (2016: Nil).

Cash flow hedging reserve

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

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

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

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

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

Foreign currency translation reserve

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

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

Share rights reserve

The balance in the share rights reserve, which represents the estimated fair value of share rights issued under the Cavalier Corporation Limited 2000 Executive Share Rights Plan ("Plan"), was transferred to retained earnings in 2016 following the expiry of all rights issued under the Plan.

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 $42,000,000 at balance date, and the details of these facilities and their utilisation at that date (excluding overdraft facilities of $1,593,500, which were repayable on demand, but none of which were utilised at balance date) can be analysed as follows:

	Facilities (excluding overdraft) $000	Facilities utilised at balance date $000	Facilities unutilised at balance date $000
Facilities (excluding overdraft) due for review:			
after 1 year but within 2 years	42,000	41,500	500
after 2 years	–	–	–
Total	**$42,000**	**$41,500**	**$500**

During the year, the Group had financial covenants with the Bank that required the Group to meet, amongst other matters, certain equity ratio, EBITDA, revenue and inventory targets. The Group was not in breach of these financial covenants throughout the year ended 30 June 2017 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 2017 %	Face value 2017 $0000	Carrying amount 2017 $000	Nominal interest rate 2016 %	Face value 2016 $000	Carrying amount 2016 $000
Non-current		35,000	35,000		37,700	37,700
Current		6,500	6,500		–	–
Total secured bank loans	**6.0**	**$41,500**	**$41,500**	**7.0**	**$37,700**	**$37,700**

The Group had no other borrowings at balance date (2016: Nil).

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

The Group extended its funding facilities with the Bank to 1 January 2019 subsequent to balance date. As part of that extension, the overdraft facilities of $1.6 million have been converted into committed facilities and now fall due for repayment on 1 January 2019. The renegotiated funding arrangement provides for a staged reduction of the $43.6 million total funding facilities, with the first reduction taking place on 1 February 2018 and each quarter thereafter. This staged reduction is consistent with the forecast reduction in bank debt under the Group's debt reduction programme.

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

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

5. ASSETS EMPLOYED

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

5a. Property, plant and equipment

	Land and buildings $000	Plant and equipment $000	Other assets $000	Under construction $000	Total $000
Cost or deemed cost					
Balance at 1 July 2015	30,886	73,068	15,118	664	119,736
Additions	–	901	450	725	2,076
Disposals	(7,270)	(1,372)	(678)	–	(9,320)
Transfers	–	525	35	(560)	–
Effect of changes in exchange rates	(397)	–	–	–	(397)
Balance at 30 June 2016	**$23,219**	**$73,122**	**$14,925**	**$829**	**$112,095**
Balance at 1 July 2016	23,219	73,122	14,925	829	112,095
Additions	209	741	1,004	169	2,123
Disposals	–	(1,075)	(1,696)	(12)	(2,783)
Transfers	120	308	144	(572)	–
Balance at 30 June 2017	**$23,548**	**$73,096**	**$14,377**	**$414**	**$111,435**
Depreciation and impairment losses					
Balance at 1 July 2015	2,114	56,485	13,227	–	71,826
Depreciation for the year	232	2,558	562	–	3,352
Impairment losses provided	–	1,895	–	289	2,184
Disposals	(377)	(1,103)	(607)	–	(2,087)
Balance at 30 June 2016	**$1,969**	**$59,835**	**$13,182**	**$289**	**$75,275**
Balance at 1 July 2016	1,969	59,835	13,182	289	75,275
Depreciation for the year	206	2,438	607	–	3,251
Impairment losses reversed	–	(1,442)	–	(63)	(1,505)
Disposals	–	(1,028)	(1,681)	–	(2,709)
Balance at 30 June 2017	**$2,175**	**$59,803**	**$12,108**	**$226**	**$74,312**
Carrying amounts					
At 30 June 2016	$21,250	$12,998	$1,743	$829	$36,820
At 30 June 2017	**$21,373**	**$13,293**	**$2,269**	**$188**	**$37,123**

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

5. ASSETS EMPLOYED (continued)

5a. Property, plant and equipment (continued)

Impairment loss

No impairment losses in respect of plant and equipment were recognised during the year (2016: $2,184,000 in respect of specific items of plant and equipment relating to the restructuring of manufacturing). Prior year impairment losses relating to specific items of plant and equipment of $1,505,000 were reversed during the year (2016: Nil).

Due to identification of indicators of impairment, including a significant reduction in the Group's market capitalisation and a deterioration in profitability, the Group conducted an impairment test of the carrying value of property, plant and equipment that is allocated to the carpet sales and manufacturing cash generating unit (CGU) as at 30 June 2017. The recoverable amount of these assets were tested for impairment by determining their value-in-use by discounting cash flow projections for the next five years, taking into consideration historic data and forecast economic conditions. The recoverable amount of these assets was determined based on the following significant assumptions:

- Carpet sales volume and revenue to remain unchanged in 2018 and 2019 and to increase by 2.0% per annum from 2020 to 2022;
- Wool price of $4.25/kg in 2018 increasing to $5.10/kg in 2021 and 2022;
- NZD:AUD exchange rates ranging from 0.890 to 0.975 between 2018 and 2022 and 0.890 thereafter;
- Post-tax discount rate of 12.55%;
- Long term growth rate of 2.0%.

Management believe that the key assumptions used and estimates made represent the most realistic assessment of the recoverable amount of property, plant and equipment. Based on this assessment, the recoverable amount of these assets exceeds their carrying amount at the reporting date and management have concluded that no impairment is required.

The results of impairment testing are particularly sensitive to the key assumptions used. The following table shows the impact of changes to key assumptions while keeping all other assumptions constant:

Changes to key assumption	Reduction to recoverable amount	Impairment effect on property, plant and equipment (after recognising impairment of goodwill of $2.4 million)
Reduction in carpet sales volumes by 2.5%	$7.8 million	$2.4 million
Increase in wool price by $0.50/kg	$10.7 million	$5.3 million
Increase in NZD:AUD by 2 cents	$6.4 million	$1.0 million
Increase in post-tax discount rate by one percentage point	$7.1 million	$1.7 million
Reduction in long term growth rate to nil	$7.8 million	$2.4 million

5. ASSETS EMPLOYED (continued)

5a. Property, plant and equipment (continued)

Security

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

Recognition and measurement

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

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

Under construction

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

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

Depreciation

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

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

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

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

5b. Capital commitments

The Group had outstanding commitments for the purchase of plant and equipment of $188,000 at balance date (2016: $12,000).

5. ASSETS EMPLOYED (continued)

5c. Goodwill

Goodwill of $2,362,000 (2016: $2,362,000) which arose from the acquisition of Radford Yarn Technologies Limited has been allocated to the carpet sales and manufacturing cash generating unit (CGU).

The Group tested this CGU for impairment of goodwill as at 30 June 2017 as discussed at note 5a (Property, plant and equipment) to the financial statements.

The results of impairment testing are particularly sensitive to the key assumptions used. The following table shows the impact of changes to key assumptions while keeping all other assumptions constant:

Changes to key assumption	Reduction to recoverable amount	Impairment effect on goodwill
Reduction in carpet sales volumes by 2.5%	$7.8 million	$2.4 million
Increase in wool price by $0.50/kg	$10.7 million	$2.4 million
Increase in NZD:AUD by 2 cents	$6.4 million	$2.4 million
Increase in post-tax discount rate by one percentage point	$7.1 million	$2.4 million
Reduction in long term growth rate to nil	$7.8 million	$2.4 million

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

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

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

6. WORKING CAPITAL

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

6a. Cash and cash equivalents

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

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

	2017 $000	2016 $000
Trade receivables due from trade customers	16,580	21,106
Other receivables	169	80
Prepayments	512	537
	$17,261	**$21,723**

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

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

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

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

6c. Inventories

	2017 $000	2016 $000
Raw materials and consumables	19,648	19,706
Work in progress	2,403	2,780
Finished goods	28,584	35,247
	$50,635	**$57,733**
Carrying amount of inventories subject to retention of title clauses	**$530**	**$655**

In 2017, the net realisable value provision in respect of inventories decreased by $1,790,000 (2016: increased by $2,664,000).

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 obsolete and aged inventories to arrive at their likely residual value. In recognising the provision for inventories, judgement is applied by considering a range of factors including historical performance, current trends and specific product information from customers.

6d. Trade creditors and accruals

	2017 $000	2016 $000
Trade payables due to external parties	16,583	21,472
Accrued expenses	2,272	1,307
	$18,855	**$22,779**

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 of Directors. 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 of Directors 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 of Directors 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 52, with the Group's ability to meet its contractual obligations, particularly with respect to the repayment of bank loans, conditional upon the Group's ability to meet its financial forecasts, including financial performance, cash flows and financial position as discussed in detail at note 2 (under Going concern) to the financial statements.

Foreign currency risk

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

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

The Group's policy allows management to hedge up to 12 months forecasted sales and purchases without the prior approval of the Board having first been obtained.

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

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

Interest rate risk

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

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

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

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:

	2017 $000	2016 $000
New Zealand	8,679	10,733
Australia	6,568	8,372
Other regions	1,502	2,081
Trade and other receivables	**$16,749**	**$21,186**

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

	Gross receivable 2017 $000	Impairment 2017 $000	Gross receivable 2016 $000	Impairment 2016 $000
Not past due	14,293	–	17,199	(88)
Past due 0 – 30 days	1,779	–	3,228	–
Past due 31 – 120 days	228	–	626	(41)
Past due > 120 days	483	(34)	309	(47)
Total	**$16,783**	**$(34)**	**$21,362**	**$(176)**

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

	2017 $000	2016 $000
Trade and other receivables – gross	16,783	21,362
Individual impairment	(34)	(176)
Trade and other receivables – net	**$16,749**	**$21,186**

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

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

	2017 $000	2016 $000
Balance at 1 July	(176)	(66)
Impaired trade receivables written off	61	65
Changes in impairment provision	81	(175)
Balance at 30 June	**$(34)**	**$(176)**

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). The Group expects that it will be able to meet all of its contractual obligations out of the forecast positive net cash flow from operating activities, currently unutilised bank facilities (see note 4c (Loans and borrowings) to the financial statements) and cash and cash equivalents at bank. See page 50 and note 2 (under Going concern) to the financial statements for further discussions around liquidity risk.

	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
2017						
Secured bank loans	41,500	43,913	851	7,351	35,711	–
Trade creditors and accruals	18,855	18,855	18,855	–	–	–
Total non-derivative liabilities	**$60,355**	**$62,768**	**$19,706**	**$7,351**	**$35,711**	**–**
Interest rate swaps	**$785**	**$923**	**$230**	**$178**	**$277**	**$238**
Forward exchange contracts						
Inflow		57,623	38,596	19,027	–	–
Outflow		(57,267)	(38,510)	(18,757)	–	–
	$(391)	**$356**	**$86**	**$270**	**–**	**–**
2016						
Secured bank loans	37,700	40,643	751	751	4,141	35,000
Trade creditors and accruals	22,779	22,779	22,779	–	–	–
Total non-derivative liabilities	**$60,479**	**$63,422**	**$23,530**	**$751**	**$4,141**	**$35,000**
Interest rate swaps	**$1,283**	**$1,218**	**$235**	**$201**	**$342**	**$440**
Forward exchange contracts						
Inflow		46,786	38,036	8,750	–	–
Outflow		(46,949)	(37,871)	(9,078)	–	–
	$(18)	**$(163)**	**$165**	**$(328)**	**–**	**–**

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
2017				
Trade receivables	6,216	593	65	258
Trade payables	(2,239)	(5,843)	(13)	(24)
Net statement of financial position exposure before hedging activity	**3,977**	**(5,250)**	**52**	**234**
Estimated forecast sales for which hedging is in place	27,362	–	63	–
Estimated forecast purchases for which hedging is in place	–	(12,179)	–	–
Net cash flow exposure before hedging activity	**31,339**	**(17,429)**	**115**	**234**
Forward exchange contracts				
Notional amounts	(31,339)	17,429	–	–
Net unhedged exposure	**–**	**–**	**$115**	**$234**
2016				
Trade receivables	8,212	1,004	53	53
Trade payables	(2,680)	(4,674)	(7)	–
Net statement of financial position exposure before hedging activity	**5,532**	**(3,670)**	**46**	**53**
Estimated forecast sales for which hedging is in place	12,040	46	63	–
Estimated forecast purchases for which hedging is in place	–	(25,534)	–	–
Net cash flow exposure before hedging activity	**17,572**	**(29,158)**	**109**	**53**
Forward exchange contracts				
Notional amounts	(17,572)	29,251	(86)	–
Net unhedged exposure	**–**	**$93**	**$23**	**$53**

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 $000
2017					
Financial assets and liabilities					
Cash and cash equivalents	1,255	1,255	–	–	–
Secured bank loans	(41,500)	(41,500)	–	–	–
	(40,245)	**(40,245)**	**–**	**–**	**–**
Related derivatives					
Effect of interest rate swaps	–	12,500	–	(5,000)	(7,500)
Total	**$(40,245)**	**$(27,745)**	**–**	**$(5,000)**	**$(7,500)**
2016					
Financial assets and liabilities					
Cash and cash equivalents	1,200	1,200	–	–	–
Secured bank loans	(37,700)	(37,700)	–	–	–
	(36,500)	**(36,500)**	**–**	**–**	**–**
Related derivatives					
Effect of interest rate swaps	–	17,500	–	(5,000)	(12,500)
Total	**$(36,500)**	**$(19,000)**	**–**	**$(5,000)**	**$(12,500)**

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.

At 30 June 2017, it is estimated that a general increase of one percentage point in interest rates would increase the Group's loss before income tax by approximately $269,000 per annum (2016: decrease profit by $165,000). Interest rate swaps have been included in this calculation.

It is estimated that a general increase of ten percentage points in the value of the New Zealand dollar against other foreign currencies at balance date would have no impact on the Group's profit or loss before income tax for the years ended 30 June 2017 and 2016 after taking into account the forward exchange contracts that the Group had in place at balance date to hedge these exposures.

Hedging

Interest rate hedges

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

At 30 June 2017, the Group had interest rate swaps with a notional contract amount of $17,500,000 (2016: $25,000,000). $5,000,000 of these will mature within six months of balance date (2016: $10,000,000), with the balance maturing over the next four years (2016: four years). The Group had no future dated swaps as at 30 June 2017 (2016: $2,500,000).

The Group classifies interest rate swaps as cash flow hedges. These swaps have fixed swap rates ranging from 4.47% to 4.92% (2016: 3.5% to 4.92%).

The net fair value of swaps at 30 June 2017 was a loss of $785,000 (2016: loss of $1,283,000).

Forecast transactions

The Group classifies the forward exchange contracts taken out to hedge forecast transactions as cash flow hedges. These forecast transactions are expected to occur within 12 months of balance date (2016: 12 months). The net fair value of forward exchange contracts used as hedges of forecast transactions at 30 June 2017 was a profit of $301,000 (2016: loss of $104,000).

Recognised assets and liabilities

The fair value of forward exchange contracts used as economic hedges of monetary assets and liabilities in foreign currencies at 30 June 2017 was a gain of $90,000 (2016: gain of $121,000) recognised in fair value derivatives.

7. RISKS AND FINANCIAL INSTRUMENTS (continued)

Classification and fair values

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

	Hedging instruments $000	Loans and receivables $000	Other amortised cost $000	Total carrying amount $000	Fair value $000	Fair value hierarchy Level 2 $000
2017						
Assets						
Derivatives	898	–	–	898	898	898
Trade and other receivables	–	16,750	–	16,750	16,750	–
Cash and cash equivalents	–	1,255	–	1,255	1,255	–
Total assets	**$898**	**$18,005**	**–**	**$18,903**	**$18,903**	
Liabilities						
Loans and borrowings	–	–	35,000	35,000	35,000	35,000
Total non-current liabilities	**–**	**–**	**35,000**	**35,000**	**35,000**	
Loans and borrowings	–	–	6,500	6,500	6,500	6,500
Derivatives	1,292	–	–	1,292	1,292	1,292
Trade and other payables	–	–	22,687	22,687	22,687	–
Total current liabilities	**1,292**	**–**	**29,187**	**30,479**	**30,479**	
Total liabilities	**$1,292**	**–**	**$64,187**	**$65,479**	**$65,479**	
2016						
Assets						
Derivatives	867	–	–	867	867	867
Trade and other receivables	–	21,186	–	21,186	21,186	–
Cash and cash equivalents	–	1,200	–	1,200	1,200	–
Total assets	**$867**	**$22,386**	**–**	**$23,253**	**$23,253**	
Liabilities						
Loans and borrowings	–	–	37,700	37,700	37,700	37,700
Total non-current liabilities	**–**	**–**	**37,700**	**37,700**	**37,700**	
Derivatives	2,132	–	–	2,132	2,132	2,132
Trade and other payables	–	–	27,149	27,149	27,149	–
Total current liabilities	**2,132**	**–**	**27,149**	**29,281**	**29,281**	
Total liabilities	**$2,132**	**–**	**$64,849**	**$66,981**	**$66,981**	

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 2016, approximate current margins, and fair value approximates the present value of future principal and interest cash flows.

Determination of fair values

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

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

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

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

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

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

Master netting or similar agreements

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

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

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

	2017		2016	
	Derivative assets $000	Derivative liabilities $000	Derivative assets $000	Derivative liabilities $000
Gross amounts in the statement of financial position	898	(1,292)	867	(2,132)
Amounts offset	–	–	–	–
Net amounts in the statement of financial position	**898**	**(1,292)**	**867**	**(2,132)**
Related amounts that are not offset based on ISDA	(898)	898	(867)	867
Net amounts	**–**	**$(394)**	**–**	**$(1,265)**

8. OTHERS

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

8a. Equity-accounted investees

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

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

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

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

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

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

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

	2017 $000	2016 $000
Carrying value at 1 July	23,175	24,937
Share of comprehensive income	56	2,488
Dividends received	(3,670)	(4,250)
Dividends in specie received	(1,700)	–
Carrying value of CWSA	1,700	–
Gain on dilution	3,929	–
Carrying value at 30 June	**$23,490**	**$23,175**

The following tables summarise the financial information of CWH as included in its 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:

8. OTHERS (continued)

8a. Equity-accounted investees (continued)

	2017 $000		2016 $000
	CWH	CWSA	CWH
Cash and cash equivalents	70	166	37
Other current assets	7,412	–	10,424
Non-current assets	112,403	3,400	59,405
Total assets	**119,885**	**3,566**	**69,866**
Current liabilities	5,409	60	21,442
Non-current liabilities	38,313	–	3,658
Total liabilities	**43,722**	**60**	**25,100**
Net assets (100%)	**$76,163**	**$3,506**	**$44,766**
Revenue	35,254	144	35,347
Depreciation	(3,287)	–	(2,992)
Net interest expense	(1,743)	–	(971)
Other expenses	(26,852)	–	(23,962)
Merger costs	(3,906)	–	(876)
Profit/(Loss) before tax	**(534)**	**144**	**6,546**
Income tax benefit/(expense)	453	(40)	(2,083)
Profit/(Loss) after tax	**(81)**	**104**	**4,463**
Changes in fair value of cash flow hedges (net of tax)	35	–	512
Total comprehensive income (100%)	**$(46)**	**$104**	**$4,975**
Percentage ownership interest	**27.5%**	**50.0%**	**50.0%**
Share of net assets	20,945	1,753	22,383
Initial transaction costs	792	–	792
Carrying value of interest in equity-accounted investees	**$21,737**	**$1,753**	**$23,175**
Group's share of profit/(loss) after tax	7	52	2,232
Group's share of changes in fair value of cash flow hedges (net of tax)	(3)	–	256
Group's share of total comprehensive income of equity-accounted investees	**$4**	**$52**	**$2,488**

8. OTHERS (continued)

8a. Equity-accounted investees (continued)

Due to identification of indicators of impairment, in particular the significant reduction in CWH's profitability as a consequence of the drop off in demand for New Zealand wool in offshore markets and the resulting erosion of processing volumes through the plant, the Group assessed the recoverable amount of its equity-accounted investment in CWH as at 30 June 2017.

Impairment testing was performed using a discounted cash flow model to determine the recoverable amount of the assets. As a result, no impairment was recognised.

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

- Processing volumes up 14.0% in 2018 as the market returns to normality, with processing volumes thereafter unchanged on those assumed for 2018;
- Projected scouring tariff rates;
- Wool grease price of USD3.40 in 2018 increasing to USD4.05/kg in 2019 and beyond;
- NZD:USD exchange rate of 0.70 for 2018, 0.68 for 2019 and 0.71 from 2020 onwards;
- No new entrant into the New Zealand wool scouring industry;
- Post-tax discount rate of 11.0%;
- Long term growth rate of 2.0%.

The Group notes that the results of impairment testing of its investment in CWH is not particularly sensitive to changes to the key assumptions used and is satisfied that its investment in CWH is not impaired provided that the existing structure of the New Zealand wool scouring industry remains substantially unchanged.

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

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

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

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

8. OTHERS (continued)

8b. Provisions

	Insurances $000	Restructuring $000	Onerous contracts $000	Warranties $000	Total $000
Balance at 1 July 2015	210	800	3,058	532	4,600
Amounts provided during the year	–	2,983	–	810	3,793
Amounts incurred during the year	–	–	(551)	(532)	(1,083)
Released to profit or loss during the year	–	–	(110)	–	(110)
Balance at 30 June 2016	**$210**	**$3,783**	**$2,397**	**$810**	**$7,200**
Non-current	210	1,277	1,653	–	3,140
Current	–	2,506	744	810	4,060
Balance at 30 June 2016	**$210**	**$3,783**	**$2,397**	**$810**	**$7,200**
Balance at 1 July 2016	210	3,783	2,397	810	7,200
Amounts provided during the year	–	–	–	202	202
Amounts incurred during the year	–	(2,356)	(558)	(32)	(2,946)
Released to profit or loss during the year	–	(150)	–	–	(150)
Balance at 30 June 2017	**$210**	**$1,277**	**$1,839**	**$980**	**$4,306**
Non-current	210	910	1,080	413	2,613
Current	–	367	759	567	1,693
Balance at 30 June 2017	**$210**	**$1,277**	**$1,839**	**$980**	**$4,306**

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*.

8. OTHERS (continued)

8b. Provisions (continued)

Restructuring

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

These initiatives included:

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

Onerous contracts

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

Warranties

The provision for warranties relates mainly to carpet sold during the years ended 30 June 2017 and 2016. The provision is based on estimates made from historical warranty data associated with similar products sold by the Group. The Group expects to incur all of the liability over the next year.

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

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

8. OTHERS (continued)

8c. Employee benefits

	2017 $000	2016 $000
Liability for retiring allowances	96	96
Liability for long service leave	1,001	1,141
Total employee benefits	**$1,097**	**$1,237**

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

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

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

8d. Operating leases

	2017 $000	2016 $000
Lease payments relating to non-cancellable operating leases	**$3,758**	**$3,973**
Gross commitments under non-cancellable operating leases:		
Less than one year	4,016	4,474
Between one and five years	9,204	7,671
Greater than five years	780	–

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

	Expiry date	Rights of renewal
6 Hautu Drive, Auckland, New Zealand	Within 7 years	None
10 Gassman Drive, Yatala, Queensland, Australia	Within 1 year	None
373 Neilson Street, Auckland, New Zealand	Within 3 years	None
273 Neilson Street, Auckland, New Zealand	Within 3 years	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.

The Group had two leased properties that were surplus to requirements following the consolidation of the Cavalier Bremworth and Norman Ellison Carpets broadloom carpet businesses in 2012 and 2013. These premises have been sub-let for varying lease terms, but changes in market conditions have meant that the rental income is lower than the rental expense. Provisions in respect of shortfall in rental income were established at the time of the consolidation and can be found under provision for onerous contracts in note 8b (Provisions) to the financial statements.

8. OTHERS (continued)

8d. Operating leases (continued)

	2017 $000	2016 $000
Sublease income relating to non-cancellable operating leases	**$885**	**$971**
Gross sublease income commitments under non-cancellable operating leases:		
Less than one year	486	509
Between one year and three years	707	–

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

8e. Contingencies

The Group has granted indemnities in favour of Bank of New Zealand and National Australia Bank Limited (together, "the Bank") at balance date in respect of Bank guarantees relating to operating leases and other commitments totalling $1,347,000 (2016: $1,335,000).

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 $41,500,000 (2016: $37,700,000).

8f. Related parties

Transactions with substantial shareholders

The Group had no transactions with substantial shareholders or their associated persons during the year.

Transactions with directors and senior managers

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

As shareholders

Some of the Directors are shareholders in the Company.

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

As lenders or borrowers

There were no loans to, or from, the Directors and senior managers during the year ended 30 June 2017 (2016: Nil).

8. OTHERS (continued)

8f. Related parties (continued)

Transactions with directors and senior managers (continued)

Directors' remuneration and benefits

The fees paid to the Directors for services in their capacity as directors totalled $331,000 during the year ended 30 June 2017 (2016: $328,407).

No other services were provided by the Directors during the year (2016: Nil).

The scale of fees payable to the Directors was last reviewed and approved by the Board on 1 August 2016, with the current scale of fees applying with effect from 1 July 2016 set out below:

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

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 of Directors.

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

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

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

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

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

	2017 $000	2016 $000
Salaries, bonuses and leave entitlements	2,924	2,372
Employee benefits	117	194
Termination payments	75	326
	$3,116	**$2,892**

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

8. OTHERS (continued)

8f. Related parties (continued)

Transactions with directors and senior managers (continued)

Other transactions

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

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

Transactions with equity-accounted investee, Cavalier Wool Holdings Limited (CWH)

The Group received $3,670,000 of dividends from CWH during the year (2016: $4,250,000).

The value of wool scouring services contracted directly with CWH during the year was $524,000 (2016: $757,000).

At balance date, the Group owed CWH $42,509 (inclusive of GST) in respect of invoices for wool scouring services provided in June 2017, but which were not due for payment at balance date (2016: $117,695). CWH owed the Group $59,706 (inclusive of GST) being rebates in respect of scouring services and wool storage provided in June 2017 (2016: $50,158) at balance date. All these amounts were paid in full after balance date.

8g. Group entities

Operating subsidiaries of the Group

	Principal activity	Country of incorporation	Interest (%) 2017	Interest (%) 2016
Cavalier Bremworth Limited	Broadloom carpet manufacturing and distribution	New Zealand	100	100
Cavalier Bremworth Pty Limited	Broadloom carpet distribution	Australia	100	100
Cavalier Spinners Limited	Carpet yarn spinning	New Zealand	100	100
Elco Direct Limited	Wool acquisition	New Zealand	100	100
Norman Ellison Carpets Limited	Broadloom carpet distribution	New Zealand	100	100
Norman Ellison Carpets Pty Limited	Broadloom carpet distribution	Australia	100	100
Radford Yarn Technologies Limited	Carpet yarn spinning	New Zealand	100	100
Cavalier Commercial Pty Limited	Carpet tile distribution	Australia	100	100
Cavalier Commercial Limited	Carpet tile distribution	New Zealand	100	100

Equity-accounted investee of the Group

	Principal activity	Country of incorporation	Interest (%) 2017	Interest (%) 2016
Cavalier Wool Holdings Limited	Wool scouring	New Zealand	27.5	50
CWS Assets Limited	Property owning	New Zealand	50.0	–

8h. Event after balance date

On 22 August 2017, the Group renegotiated its funding facilities as discussed at note 4c (Loans and borrowings) to the financial statements.

8. OTHERS (continued)

8i. Standards, interpretations and amendments to standards

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Management has commenced assessing the accounting implications of NZ IFRS 15 and notes that given the absence of bundled products or services, this new standard is not expected to have a material impact on the Group's operations in New Zealand and Australia.

8. OTHERS (continued)

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

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

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

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

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

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

The operating lease commitments on an undiscounted basis amount to approximately 10% of the Group's total assets and 20% of total liabilities. Assuming no additional new operating leases in future years until the effective date, the Group expects the amount of ROU asset and lease liability to be lower due to discounting and as the lease terms run down.

The Group will perform a detailed analysis of the standard, including the transition options and practical expedients in 2018.

Trend Statement

	2017 $000	2016 $000	2015 $000	2014 $000	2013 $000	2012 $000
Financial Performance						
Operating revenue	**$156,120**	**$190,371**	**$215,728**	**$200,642**	**$201,739**	**$217,198**
EBITDA (normalised)	2,572	12,275	8,517	14,609	12,142	12,278
Depreciation	(3,251)	(3,352)	(5,862)	(5,849)	(6,328)	(6,738)
EBIT (normalised)	**(679)**	**8,923**	**2,655**	**8,760**	**5,814**	**5,540**
Net interest expense	(2,936)	(3,374)	(3,948)	(3,484)	(3,740)	(4,049)
Share of after tax profit of equity-accounted investee (normalised)	797	2,670	2,034	2,044	5,013	3,302
Profit/(Loss) before income tax (normalised)	**(2,818)**	**8,219**	**741**	**7,320**	**7,087**	**4,793**
Income tax (expense)/benefit	962	(1,906)	454	(1,530)	(463)	(510)
Profit/(Loss) after tax (normalised)	**(1,856)**	**6,313**	**1,195**	**5,790**	**6,624**	**4,283**
Abnormal costs (after tax)	(268)	(3,198)	(26,910)	–	(3,594)	(5,916)
Profit/(Loss) after tax attributable to shareholders of the Company (GAAP)	**(2,124)**	**3,115**	**(25,715)**	**5,790**	**3,030**	**(1,633)**
Ordinary dividends paid	–	–	–	(4,785)	–	(7,509)
Profit/(Loss) after dividends	**$(2,124)**	**$3,115**	**$(25,715)**	**$1,005**	**$3,030**	**$(9,142)**
Financial Position						
Shareholders' equity	67,890	69,361	66,184	92,959	93,918	90,855
Loans and borrowings	35,000	37,700	45,000	61,220	58,896	68,503
Term liabilities	3,315	4,461	4,938	6,363	6,961	5,591
Loans and borrowings – current portion	6,500	–	11,767	–	320	172
Current liabilities	26,152	35,854	41,237	37,518	36,542	36,313
Shareholders' equity and total liabilities	**$138,857**	**$147,376**	**$169,126**	**$198,060**	**$196,637**	**$201,434**
Fixed assets	37,123	36,820	47,910	63,900	68,932	75,080
Investment in equity-accounted investee	23,490	23,175	24,937	25,900	23,856	22,593
Goodwill and other intangibles	2,362	2,362	2,362	7,794	7,794	7,502
Deferred tax asset	5,532	3,496	1,388	3,107	2,797	1,998
Non-current assets	**68,507**	**65,853**	**76,597**	**100,701**	**103,379**	**107,173**
Current assets	70,350	81,523	92,529	97,359	93,258	94,261
Total assets	**$138,857**	**$147,376**	**$169,126**	**$198,060**	**$196,637**	**$201,434**

Trend Statement (continued)

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

[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, Wanganui and Christchurch. The costs included employee termination benefits, employee support costs, costs to relocate plant and equipment and abnormal manufacturing costs and inefficiencies during the consolidation process, which included:

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

[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.

Trend Statement (continued)

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

Trend Statement (continued)

Glossary of financial terms

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

Use of funds and Return on investment

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

Financial structure

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

Return to shareholders

Ordinary dividend cover (normalised)	$\frac{\text{Profit/(Loss) after tax attributable to shareholders of the Company (normalised)}}{\text{Ordinary dividends paid}}$

Disclosure of Non-GAAP Financial Information

The Directors acknowledge that the Annual Report, including the Trend Statement from pages 69 to 72, contains financial information that is non-GAAP (Generally Accepted Accounting Practice) and therefore falls within the Financial Markets Authority's guidance note on "Disclosing non-GAAP financial information" issued in September 2012.

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

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

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

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

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

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

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

Disclosure of Non-GAAP Financial Information (continued)

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

	Year ended 30 June 2017			Year ended 30 June 2016		
	GAAP $000	Adjustments $000	Normalised $000	GAAP $000	Adjustments $000	Normalised $000
Revenue	**$156,120**	**–**	**$156,120**	**$190,371**	**–**	**$190,371**
EBITDA	(2,232)	4,804	2,572	9,897	2,378	12,275
Depreciation	(3,251)	–	(3,251)	(3,352)	–	(3,352)
EBIT	**(5,483)**	**4,804**	**(679)**	**6,545**	**2,378**	**8,923**
Net interest expense	(2,936)	–	(2,936)	(3,374)	–	(3,374)
Share of profit after tax of equity-accounted investee	59	738	797	2,232	438	2,670
Gain on dilution of equity-accounted investee	3,929	(3,929)	–	–	–	–
Profit/(Loss) before tax	**(4,431)**	**1,613**	**(2,818)**	**5,403**	**2,816**	**8,219**
Tax credit/(expense)	2,307	(1,345)	962	(2,288)	382	(1,906)
Profit/(Loss) after tax	**$(2,124)**	268	(1,856)	**$3,115**	3,198	6,313
Abnormal net loss after tax		(268)	(268)		(3,198)	(3,198)
Profit/(Loss) after tax (GAAP)		**–**	**$(2,124)**		**–**	**$3,115**

Analysis of abnormal items	Profit/(Loss) before tax $000	Tax effect $000	Profit/(Loss) after tax $000	Profit/(Loss) before tax $000	Tax effect $000	Profit/(Loss) after tax $000
Gain on sale of property	–	–	–	4,313	(2,278)	2,035
Restructuring costs	(6,309)	1,767	(4,542)	(4,507)	1,285	(3,222)
Reversal/(Recognition) of impairment of fixed assets	1,505	(422)	1,083	(2,184)	611	(1,573)
Scour merger costs	(738)	–	(738)	(438)	–	(438)
Gain on merger and dilution of equity-accounted investee	3,929	–	3,929	–	–	–
	$(1,613)	**$1,345**	**$(268)**	**$(2,816)**	**$(382)**	**$(3,198)**

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

	GAAP-compliant reported profit/(loss) after tax	Reverse abnormal items (net of tax)	Non GAAP-compliant normalised profit/(loss) after tax
Year ended 30 June 2017			
Loss attributable to shareholders ($000)	$(2,124)	$268	$(1,856)
Weighted average number of ordinary shares	68,679,098		68,679,098
Earnings per share (basic and diluted)	(3.1) cents		(2.7) cents
Year ended 30 June 2016			
Profit attributable to shareholders ($000)	$3,115	$3,198	$6,313
Weighted average number of ordinary shares	68,679,098		68,679,098
Earnings per share (basic and diluted)	4.5 cents		9.2 cents

Governance and Other Disclosures

For the year ended 30 June 2017

We come to work every day knowing that what we do at the yarn spinning plants affects every metre of woollen carpet that we produce. Everything starts here, so getting things **right first time** is critical.

Roger Hofmann
Carding Operator, Napier spinning plant

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

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

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

Cavalier's approach to governance is reported against the nine fundamental corporate governance principles set out in the FMA Governance Principles.

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

A full description of the composition and duties of the Board's Audit, Remuneration and Nomination Committees is contained in the respective committee charters which can also be found on the Company's website.

PRINCIPLE 1 – ETHICAL STANDARDS

Code of conduct

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

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

The code of conduct and other key policies relating to corporate governance can be found on the Company's website www.cavcorp.co.nz.

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

Conflicts of interest

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

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

The Directors' disclosure of interest can be found on pages 83 to 85.

Share trading policy

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.

PRINCIPLE 2 – BOARD COMPOSITION AND PERFORMANCE

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

The profile of the Directors can be found on page 15.

As at 30 June 2017, the Board comprised five Directors – Sarah Haydon (Chairman), John Rae (Deputy Chairman), Grant Biel, Steve Bootten and Dianne McAteer.

Director independence

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

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

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

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

Steve Bootten, Sarah Haydon, Dianne McAteer and John Rae are independent Directors of the Company as at 30 June 2017.

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

Board role and responsibility

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

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

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

PRINCIPLE 2 – BOARD COMPOSITION AND PERFORMANCE (continued)

Delegation

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

Induction and Board access to information and advice

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

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

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

Nomination and appointment of Directors

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

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

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

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

Evaluation of Board performance

The Board will, each year, critically evaluate its own performance and the performance of the individual Directors.

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

Attendance at meetings

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

The attendance record of the Directors at Board and committee meetings held during the year ended 30 June 2017 is as follows:

	Board		Audit	Remuneration	Nomination	
	Scheduled	Special	Committee	Committee	Committee	Shareholders
Total held	**11**	**1**	**4**	**2**	**2**	**1**
Attendance:						
Grant Biel	11	1	4	2	2	1
Steve Bootten	11	1	4	2	2	1
Sarah Haydon	11	1	4	2	2	1
Dianne McAteer	11	1	4	2	2	1
John Rae	11	1	4	2	2	1

PRINCIPLE 3 – BOARD COMMITTEES

The Board has three standing committees as follows:

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

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

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

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

Audit Committee

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

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

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

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

The members of the Audit Committee as at 30 June 2017 were Steve Bootten (Chairman), Grant Biel, Sarah Haydon, Dianne McAteer and John Rae.

Steve Bootten has a background in finance and accounting and has held senior finance and general management roles in large manufacturing and distribution companies. Steve Bootten is a member of Chartered Accountants Australia and New Zealand. Sarah Haydon also has a background in finance and accounting having previously held senior finance roles in a number of companies, including 10 years as Chief Financial Officer of OfficeMax New Zealand. Sarah Haydon is a member of the Institute of Chartered Accountants of England and Wales.

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

Remuneration Committee

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

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

The Remuneration Committee meets as and when required.

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

The members of the Remuneration Committee as at 30 June 2017 were John Rae (Chairman), Grant Biel, Steve Bootten, Sarah Haydon and Dianne McAteer.

PRINCIPLE 3 – BOARD COMMITTEES (continued)

Nomination Committee

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

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

The Nomination Committee meets as and when required.

The members of the Nomination Committee as at 30 June 2017 were Sarah Haydon (Chairman), Grant Biel, Steve Bootten, Dianne McAteer and John Rae.

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 it were generally available to the market.

The Directors are also committed 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.

Financial reporting

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

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

Timely and balanced disclosure

Cavalier is committed to promoting investor confidence by providing timely, accurate, complete and equal access to material information, both positive and negative, in accordance with the NZX Main Board Listing Rules. To achieve and maintain high standards of disclosures, Cavalier has adopted a continuous disclosure policy, which is designed to ensure compliance with NZX continuous disclosure guidance note. This policy sets guidelines and outlines responsibilities to safeguard the Company against inadvertent breaches of continuous disclosure obligations.

The Company Secretary has responsibility for overseeing and co-ordinating disclosures to the market.

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.

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

The total remuneration paid to the Directors for the year ended 30 June 2017 was $331,000.

The remuneration of the Directors can be found on page 86.

The scale of fees payable to the Directors was last reviewed and approved by the Board on 1 August 2016, with the current scale of fees applying with effect from 1 July 2016 set out below:

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

The current scale of fees payable to the Directors can be compared with the previous one which came into effect on 1 July 2011 and set out below:

Directors' fees	Per annum	Explanatory notes
Non-executive Chairman of the Board	$96,000	In recognition of additional time and responsibilities as Chairman of Remuneration Committee and Nomination Committee and inclusive of time spent on Audit Committee
Non-executive Directors	$48,000	Inclusive of time spent on Board committees
Chairman of the Audit Committee	$6,000	In recognition of additional time and responsibilities as Chairman of Audit Committee

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

- the fact that the previous scale of fees was put in place in July 2011;
- the significant involvement of the Directors in ensuring the Company's sustained turnaround;
- the much greater time commitment and skills/experience required of the Directors due to the significantly increased demands placed on directors in general;
- the much greater time commitment and responsibility in the area of workplace health and safety as a consequence of the new Health and Safety at Work Act 2015;
- the changes to individual responsibilities within the Board;
- the need to adopt a new scale of fees that would allow the Board to attract and retain Directors;
- the results of the June 2016 benchmarking of directors' fees conducted by PwC on behalf of the Board; and
- the fact that the new scale of fees was still below the average of the PwC benchmark group and the intention to move towards the benchmark average over time.

PRINCIPLE 6 – RISK MANAGEMENT

Cavalier is committed to the effective management of risk, which is central to the continued growth and profitability of the Company.

The Company maintains a risk management framework for the identification, assessment, monitoring and management of risk.

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. Other key risk management policies in place include the treasury policy and delegated authority policy.

Assurance

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

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

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

PRINCIPLE 7 – AUDITORS

The Board is responsible for ensuring the quality and independence of the external audit process.

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

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

The Audit Committee requires the external auditor to confirm on a six-monthly basis that it has:

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

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

PRINCIPLE 8 – SHAREHOLDER RELATIONS

Cavalier is focused on fostering constructive relationships with shareholders that encourage them to engage with the entity 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 currently keeps shareholders informed through:

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

The Board encourages full participation of shareholders to ensure a high level of accountability and identification with Cavalier's strategies and goals. Cavalier's external auditor also attends the Annual Meeting, and is available to answer questions relating to the conduct of the external audit and the preparation and content of the auditor's report.

PRINCIPLE 9 – STAKEHOLDER INTERESTS

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

Disclosures under the Companies Act 1993

Year ended 30 June 2017

DIRECTORS

The Directors of the Company as at 30 June 2017 were:

Grant Biel
Steve Bootten
Sarah Haydon
Dianne McAteer
John Rae

There were no changes to the Board of Directors during the year.

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 fees payable to the Directors with effect from 1 July 2016 was approved by the Board of Directors on 1 August 2016 and is set out on page 81.

Indemnity and Insurance

The Board of Directors authorised, on 28 June 2017, the Company's renewal of the directors' and officers' liability insurance policies for the period from 1 July 2017 to 30 June 2018.

The total cost of these policies – which cover 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 – is $27,280.

Share dealing

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

Directors	Number of shares acquired	Price per share	Date of acquisition	Registered holder
Steve Bootten	25,000	$0.88	30 August 2016	Kitenga Investments Limited
Sarah Haydon	15,000	$0.88	30 August 2016	Sarah Elizabeth Flora Haydon
Dianne McAteer	5,000	$0.88	31 August 2016	Dianne Victoria McAteer and Kevin William Biggar (Titan A/c)

Directors' relevant interests in shares in the Company as at 30 June 2017 were:

Grant Biel	
Beneficial	–
Other	8,467,642
Steve Bootten	
Beneficial	25,000
Other	–
Sarah Haydon	
Beneficial	25,000
Other	–
Dianne McAteer	
Beneficial	5,000
Other	–

Disclosures under the Companies Act 1993 (continued)

Year ended 30 June 2017

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 2017 were:

Grant Biel	Auckland Air Charter Limited	Director
	Heli Harvest Limited	Director
	Heli Harvest (2012) Limited	Director
	Westburn Investments Limited	Director
	Bay Cliffe Industries Limited	Director and shareholder
	Baycliffe Enterprises Limited	Director and shareholder
	Bondworth Carpets Limited	Director and shareholder
	Rural Aviation (1963) Limited	Director and shareholder
Steve Bootten	Black Interiors Limited	Chairman
	Auckland Regional Amenities Funding Board	Director
	Blackspace Limited	Director
	Framecad Holdings Limited	Director
	Bootten Consulting Limited	Director and shareholder
	Kitenga Investments Limited	Director and shareholder
	Davis Carr Cancer Society Endowment Trust Inc	Trustee
	Piha Surf Life Saving Club Trust Fund Inc	Trustee
	SRB Family Trust	Trustee
	Trump Trust	Trustee
Sarah Haydon	The Co-operative Bank Limited	Director
	Co-operative Life Limited	Director
	The Institute of Geological and Nuclear Sciences Limited	Director
	Ports of Auckland Limited	Director
	Wairaka Land Company Limited	Director
	Unitec Institute of Technology	Council Member
	New Zealand Riding for the Disabled Association	Chairman
	Waste Disposal Services	Executive Committee Member
	The Boardroom Practice Limited	Associate
	R&E Seelye Trust	Trustee
	Unitec Trust	Trustee
	Sarah Haydon Trust Company Limited	Director and shareholder

Disclosures under the Companies Act 1993 (continued)

Year ended 30 June 2017

INTERESTS REGISTER (continued)

General disclosures of interest (continued)

Dianne McAteer	Beds R Us	Chairman
	Netball Northern Zone (Incorporated Society)	Chairman
	Chartered Accountants Australia New Zealand	Director
	Northcote Rd 1 Holdings Limited	Director
	Public Trust	Director
	West Auckland Trust Services Limited	Director
	World Masters Games 2017 Limited	Director
	Darden Limited	Director and shareholder
	Darden Holdings Limited	Director and shareholder
	Stepchange Consulting Limited	Director and shareholder
John Rae	Activate Tairawhiti Limited	Chairman
	The National Infrastructure Advisory Board	Chairman
	Smart Environmental Limited	Chairman
	Thos Corson Holdings Limited	Chairman
	Corson Grain Limited	Director
	Eastland Group Limited	Director
	Eastland Network Limited	Director
	Eastland Port Limited	Director
	Gisborne Airport Limited	Director
	The Lines Company Limited	Director
	Ngapuhi Asset Holding Company Limited	Director
	Abodo Limited	Chairman of Advisory Board
	Gobble Limited	Director and shareholder as nominee
	Kingyo Foods Limited	Director and shareholder as nominee
	F J Hawkes & Co. Limited	Director and shareholder
	Jaffa Holdings Limited	Director and shareholder
	Activate Tairawhiti Charitable Trust	Trustee
	Activate Tairawhiti Regional Development Trust	Trustee
	JR Family Trust	Trustee

Disclosures under the Companies Act 1993 (continued)

Year ended 30 June 2017

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 2017 were:

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Other benefits	Total
Grant Biel	$53,000	–	–	–	–	$53,000
Steve Bootten (Chairman of Audit Committee)	$53,000	$8,000	–	–	–	$61,000
Sarah Haydon (Chairman)	$106,000	–	–	–	–	$106,000
Dianne McAteer	$53,000	–	–	–	–	$53,000
John Rae (Chairman of Remuneration Committee)	$53,000	–	$5,000	–	–	$58,000
Total	**$318,000**	**$8,000**	**$5,000**	**–**	**–**	**$331,000**

The current scale of fees payable to the Directors is set out on page 81.

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 2017 fall into the various brackets specified by the Companies Act 1993 is as follows:

Remuneration and value of other benefits ($)	Number of employees
100,000 – 109,999	18
110,000 – 119,999	11
120,000 – 129,999	9
130,000 – 139,999	3
140,000 – 149,999	4
150,000 – 159,999	5
160,000 – 169,999	3
170,000 – 179,999	1
180,000 – 189,999	–
190,000 – 199,999	3
200,000 – 209,999	–
210,000 – 219,999	1
220,000 – 229,999	–
230,000 – 239,999	1
240,000 – 249,999	1
250,000 – 259,999	1
260,000 – 269,999	1
270,000 – 279,999	–
280,000 – 289,999	–
290,000 – 299,999	2
300,000 – 309,999	1
310,000 – 319,999	1
500,000 – 509,999	1
Total number of employees	**67**

Disclosures under the Companies Act 1993 (continued)

Year ended 30 June 2017

DONATIONS

Refer to page 37 (note 3e of the notes to the financial statements).

AUDIT FEES

Refer to page 37 (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 Michael Richardson

Cathy Howitt resigned, and Michael Richardson 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.

Cathy Howitt also resigned as a Director of Cavalier Commercial 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 86.

Disclosures under the New Zealand Exchange Main Board Listing Rules

As at 31 August 2017

ANALYSIS OF SHAREHOLDINGS

	Number of Shareholders	%	Shares Held	%
Size of shareholdings				
Up to 199	99	2.70	8,336	0.01
200 – 499	146	3.98	50,076	0.07
500 – 999	248	6.76	174,130	0.25
1,000 – 1,999	603	16.45	835,064	1.22
2,000 – 4,999	1,033	28.18	3,185,188	4.64
5,000 – 9,999	684	18.66	4,575,478	6.66
10,000 – 49,999	724	19.75	13,869,240	20.19
50,000 – 99,999	65	1.77	4,208,097	6.13
Over 99,999	64	1.75	41,773,489	60.82
	3,666	**100.00**	**68,679,098**	**100.00**
Location of shareholders				
New Zealand	3,545	96.70	67,398,915	98.14
Overseas – Australia	70	1.91	878,626	1.28
– Others	51	1.39	401,557	0.58
	3,666	**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
New Zealand Central Securities Depository Limited	7,603,486	11.07
FNZ Custodians Limited	1,622,960	2.36
Forsyth Barr Custodians Limited	871,413	1.27
Masfen Securities Limited	787,500	1.15
Ian David McIlraith	650,000	0.95
Graham James Munro and Zita Lillian Munro	570,000	0.83
Geoffrey Thomas Charles Harnden	550,000	0.80
J and D Sands Limited	500,000	0.73
Michael Lookman and 187 Bridge Trustees 53 Limited	500,000	0.73
Chin-Yi Lin and Yu-Ching Lin-Chao	413,000	0.60
Peter William Beasley and Anne Kathryn Beasley and Kevin Harborne	400,000	0.58
Heatherfield Investments Limited	400,000	0.58
Alan Michael James and Ann White James	373,045	0.54
ASB Nominees Limited	373,000	0.54
Percy Keith McFadzean	334,763	0.49
Nicolaas Johannes Kaptein	300,000	0.44
Custodial Services Limited	299,106	0.44
Ian Graham Douglas and Basil James Cook	292,000	0.43
	35,018,633	**50.99**

NEW ZEALAND CENTRAL SECURITIES DEPOSITORY LIMITED

New Zealand Central Securities Depository Limited provides a custodial depository service to offshore and institutional shareholders and does not have a beneficial interest in the shares registered in its name. The beneficial owners of the shares registered in its name as at 31 August 2017 were:

	Shares Held	%
Accident Compensation Corporation	3,870,000	5.63
BNP Paribas Nominees (NZ) Limited	2,599,113	3.78
JPMorgan Chase Bank NA NZ Branch – Segregated Clients A/c	770,008	1.12
HSBC Nominees (New Zealand) Limited	250,715	0.37
ANZ Custodial Services New Zealand Limited	66,580	0.10
Courtenay Nominees Limited	21,000	0.03
Citibank Nominees (New Zealand) Limited	10,000	0.01
BNP Paribas Nominees (NZ) Limited	9,700	0.01
National Nominees New Zealand Limited	6,370	0.01
	7,603,486	**11.07**

DIVERSITY POLICY

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

	30 June 2017			30 June 2016		
	Male	Female	Total	Male	Female	Total
Directors	3/60%	2/40%	5/100%	3/60%	2/40%	5/100%
Officers [1]	7/70%	3/30%	10/100%	5/63%	3/37%	8/100%
Direct reports of officers	27/71%	11/29%	38/100%	25/78%	7/22%	32/100%

[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 of Directors or report directly to a person who reports directly to the Board of Directors.

The Company has recently adopted a formal diversity and inclusion policy.

The Company acknowledges that our people bring a range of backgrounds, skills and experience to Cavalier, with the diversity and inclusion policy designed to ensure that on a day-to-day basis, we encourage, respect and embrace this diversity. Fostering an environment that values and promotes diversity and inclusion improves business performance through improved innovation and decision making through building our culture, brand and shareholder returns.

The Board has established measurable objectives for achieving diversity and to quantify Cavalier's effectiveness in implementing this policy and will provide its evaluation of the Company's performance with respect to this policy when it next reports to shareholders.

Disclosures under the Financial Markets Conduct Act 2013

As at 30 June 2017

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	3,607,312
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 2017 was 68,679,098.

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

Shareholder Information

ANNUAL MEETING OF SHAREHOLDERS

Time and date	10 a.m., Tuesday, 31 October 2017
Venue	Level 4, South Stand, Eden Park, Reimers Avenue, Auckland

CORPORATE CALENDAR

31 October 2017	2017 Annual Meeting of shareholders
31 December 2017	End of 2018 half year
Mid-February 2018	Announcement of 2018 half year result
Mid-March 2018	Release of 2018 half year report
30 June 2018	End of 2018 financial year
Late August 2018	Announcement of 2018 annual result
September 2018	Period for director nominations
End of September 2018	Release of 2018 Annual Report

Corporate Directory

BOARD OF DIRECTORS

Grant Biel B.E. (Mech.) *Non-independent*	Member of Audit, Remuneration and Nomination Committees
Steve Bootten ACA, FCIS, FCIM, MInstD *Independent*	Chairman of Audit Committee Member of Remuneration and Nomination Committees
Sarah Haydon B.Sc., FCA, CMInstD *Independent*	Chairman of the Board of Directors Chairman of Nomination Committee Member of Audit and Remuneration Committees
Dianne McAteer B.Com., MBA, CMInstD *Independent*	Member of Audit, Remuneration and Nomination Committees
John Rae B.Com., LLB, CMInstD *Independent*	Deputy Chairman of the Board of Directors Chairman of Remuneration Committee Member of Audit and Nomination Committees

CHIEF EXECUTIVE OFFICER

Paul Alston BBS, CA

COMPANY SECRETARY

Victor Tan CA, FCIS

FOUNDING SHAREHOLDER

The late **Anthony Charles Timpson** ONZM

REGISTERED OFFICE

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

SHARE REGISTRAR

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

AUDITORS

KPMG

LEGAL ADVISORS

Russell McVeagh

BANKERS

Bank of New Zealand

National Australia Bank Limited

Corporate Directory (continued)

CARPET OPERATION

National Sales Manager New Zealand	Dean Chandler
General Manager Manufacturing	Craig Wallis
Group Product and Marketing Manager	Rochelle Flint
General Manager Australia	Michael Richardson
General Manager Rest of World Sales	Cathy Howitt
Group Financial Controller	Linda Arbuckle
Group Information Services Manager	Trevor Jones

WOOL OPERATION

General Manager Wool Acquisition	Shane Eades

WEBSITES

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

We can always do better, is something we remind ourselves of every day as we go about our work. It is all about continually improving and doing things better.

Fiatamalii Olive
Tufter Operator, Auckland tufting plant


CAVALIER
CORPORATION