CAVALIER CORPORATION LIMITED

2013/14 ANNUAL REPORT
YEAR ENDED 30 JUNE 2014

CAVALIER
CORPORATION

VALUES

- to maximise returns to shareholders in a sustainable and consistent manner, whilst having regard to the interests of our other stakeholders
- to be a good corporate citizen in terms of social and environmental responsibilities, and to conduct business with consistency and absolute integrity at all times

VISION

- to be Australasia's best carpet manufacturer and wool processor, with each business unit outperforming its competitors in earnings, service, product innovation and quality
- to achieve growth by leveraging off our experience and knowledge in core and allied businesses where we have distinct and proven competitive advantages

MISSION

- to be the market leader, and the most preferred supplier, by focusing on brand values, superior product quality and innovation, and outstanding customer service
- to foster an organisational culture dedicated to best practice and continuous improvement in product quality, customer service and operational efficiencies
- to attract and retain the very best people and to provide them with the environment to develop and grow
- to develop long-term alliances, with key business partners, that are strategic to our business units
- to ensure that returns from current and new investments in our existing business units exceed the Group's cost of capital
- to actively seek and evaluate growth opportunities that best fit our investment criteria and risk profile

As required by section 211(1)(k) of the Companies Act 1993, the 2014 Annual Report of Cavalier Corporation Limited is signed on behalf of the Board on 17 September 2014 by:

A M JAMES – Chairman

C A MCKENZIE – Managing Director

COVER
NEW CAVALIER SHOWROOM
15 Tennyson Street, Wellington.

CIPHER
This loop pile solution-dyed nylon carpet offers a choice of accent colours, making it ideal for a wide range of commercial environments. Cipher is part of the contract heavy duty range under the Cavalier Commercial brand, which focuses on durability and quality and has a range of wool and synthetic options.

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AUSTRALIAN TECHNOLOGY PARK

This industrial style exhibition space located in Redfern used imagery around the concept of digital data coding. Corporate colours were used in the highlights within the hexagon design to coordinate with the Australian Technology Park branding. Multiple exhibitions take place throughout the year, so functionality and performance were taken into consideration in the design development stages to recognise the high foot traffic and the specific requirements of exhibitors and other users.

Location - Sydney, NSW
Specifier - Australian Technology Park
Product - Ontera DyeStart (Custom-Danxia), 600mm

2013/14 IN BRIEF

REVENUE

$201 million,
largely unchanged on previous year's
$202 million, with carpet revenue down $5 million, but wool and yarn revenues up $4 million.

REPORTED PROFIT AFTER TAX

$5.8 million, compared with previous year's tax-paid of $3.0 million, which was adversely affected by the business restructuring initiatives undertaken or committed to during 2012/13.

NORMALISED TAX-PAID EARNINGS[1]

13% decrease from $6.6 million (normalised) the previous year **to $5.8 million,** despite improved earnings for the carpet and yarn operations and profit in line for the wool buying business. This is due largely to the extent to which share of profit of 50%-owned wool scouring operation had dropped.

NET INTEREST-BEARING DEBT

$5.6 million/10%
increase in net interest-bearing debt from $53.2 million **to $58.8 million**, attributable mainly to the increase in inventories to support continuing expansion into synthetic and felted carpets. As a consequence, **net interest-bearing debt : equity** increased from 36 : 64 to 39 : 61.

FINANCIAL POSITION

46.9% proprietorship ratio, compared with 47.8% the previous year.

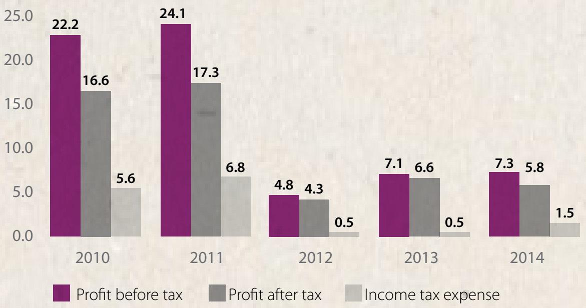
BUSINESS IMPROVEMENT INITIATIVES

Successful consolidation of carpet tufting at one site following the consolidation of three spinning mills into two and the combination of two Auckland-based warehousing and distribution operations during 2012/13.

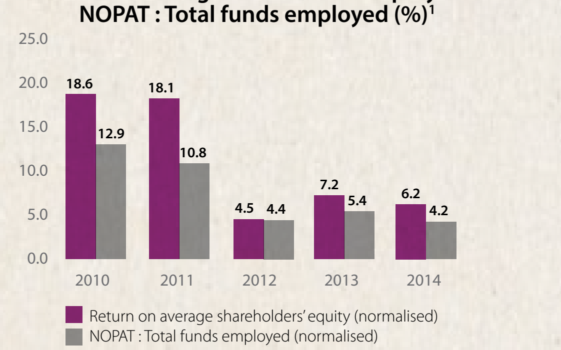
FINANCIAL OVERVIEW

YEAR ENDED 30 JUNE 2014

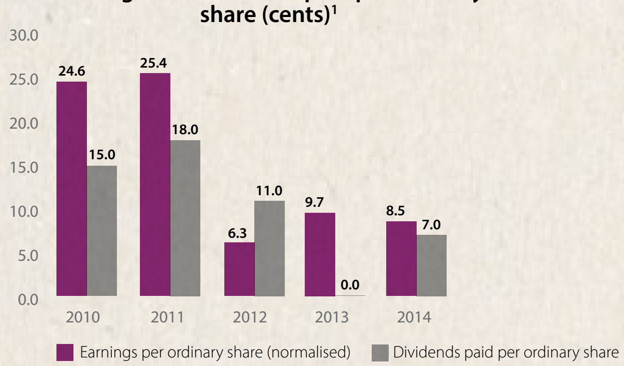
Financial results (normalised) ($ millions)[1]



Return on average shareholders' equity and NOPAT : Total funds employed (%)[1]

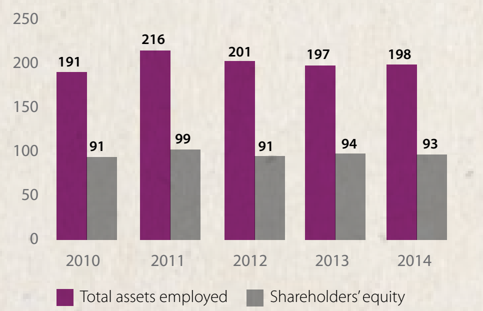


Earnings and Dividends paid per ordinary share (cents)[1]



Net tangible asset backing per ordinary share ($)

Total assets employed and Shareholders' equity ($ millions)



Proprietorship ratio (%)

[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 has been included in page 92 of this report.

YEAR AT A GLANCE

HABITAT COLLECTION LINE-UP EXPANDS

The market response to the new solution-dyed nylon carpets introduced across Australia and New Zealand (under the Habitat Collection brand from Cavalier Bremworth) was extremely positive with sales targets being exceeded.

Two more ranges have been introduced, again showcasing Cavalier Bremworth's design point of difference.

Woodgrain is a textured cut and loop pile with a very distinctive pattern, while Sandpiper has a more subtle pin-stripe effect.

WOODGRAIN

SANDPIPER

TOUCHTILES - SOFT-TOUCH CARPET TILES

For the first time in its 55-year history, Cavalier Bremworth has produced carpet in tile form.

Launched in Australia in May, and New Zealand in July, the Touchtiles Collection features five soft-touch carpet tiles, mostly based on existing broadloom carpet styles. Marketed under the Cavalier Commercial brand, there are three wool tile options and two in solution-dyed nylon.

The facecloth for the tiles are made in Auckland by Cavalier Bremworth and then sent to Ontera Modular Carpet in Sydney where they are backed and cut into standard carpet tile size. The products are designed specifically for hospitality and multi-residential apartment-style projects.

Functions were held in Brisbane, Adelaide, Perth, Melbourne and Sydney with architects, interior designers and commercial retailers amongst the attendees.

Brisbane guests play Made 2 Match - an interactive game using Touchtiles.

LOYALTY PROGRAMME LAUNCHED TO NZ INDEPENDENT DEALERS

The Cavalier Bremworth INDYCLUB

In February, Cavalier Bremworth launched the IndyClub, a new programme aimed at supporting independent dealers.

Held in Taupo, Cavalier Carpets CEO Brent Wollaston and GM NZ Sales Warren Drinkwater introduced the group to a range of benefits that have been put together exclusively for members of the IndyClub.

Pictured L-R: Cavalier Carpets CEO Brent Wollaston with independent retailers Greg McLeod, Malcolm Patterson and John Kasper.

CAVALIER JOINS FORCES WITH MOHAWK

Cavalier Bremworth joined forces with the world's largest flooring manufacturer, Mohawk, in June to bring Mohawk's synthetic carpet products to Carpet Court Australia.

Carpet Court Australia is Australia's largest specialty flooring retailer with over 200 independently owned and operated stores situated throughout the country.

Cavalier Carpets CEO Brent Wollaston said that a commitment to offer Carpet Court Australia an unparalleled level of service by using Cavalier's extensive sales, logistical and customer support was at the core of the alliance. He added that Mohawk had developed a global reputation for its ground-breaking product innovations and that Cavalier Carpets was enthusiastic about working with the largest floorcovering company in the world, leveraging the distinct areas of expertise of both Mohawk and Cavalier Carpets.

"Aligning with Cavalier - a company with a reputation for quality, service and integrity - is a perfect collaboration as we continue to develop our Australian business,"

Michel Vermette, senior vice president of Mohawk's international business, said at the time of the launch.

EMPHASISING OUR UNIQUE FELTED YARNS

Radford Felted Yarn New Zealand

In April, Christchurch-based Radford Yarn underwent a minor brand evolution and became Radford Felted Yarn to further emphasise the unique nature of its felted yarns and the position they hold in the marketplace.

As a result, a new Radford sample label was developed and is now affixed to all Cavalier Bremworth felted products to draw attention to the special qualities of the yarn and the finished carpet.

ONTERA BUILDS ON LONGSTANDING ASSOCIATION WITH MILLIKEN

Ontera Modular Carpets has built on its longstanding association with Milliken to include in its existing product portfolio throughout Australia and New Zealand some of Milliken's exceptional products.

Milliken is a US-based global leader in floor coverings founded on innovation and commitment to design.

This latest supply initiative with Milliken is a key component of Ontera's constant drive to provide its customers with world-class modular carpet solutions utilising the latest cutting-edge design technology.

QUAKE PROMPTS MOVE FOR WELLINGTON SALES TEAM

The Wellington sales team now has a new showroom and office in central Wellington. The move was prompted by a series of sizeable earthquakes at the end of 2013 which resulted in damage to the previous office building.

Located at 15 Tennyson Street, the showroom features all Cavalier brands and provides a modern and functional trade-only meeting space for the sales team to liaise with retailers, designers and architects.

CAVALIER BREMWORTH VOTED 'MOST TRUSTED CARPET BRAND'

For the first time, carpet was included as a category in the Reader's Digest annual consumer survey and Cavalier Bremworth was voted 'most trusted carpet brand'.

The results from the Reader's Digest study were very encouraging with key words like 'quality', 'reliable', 'reputable', 'well-known' and 'longevity' associated with the Cavalier Bremworth brand.

FLASHBAC PATENT APPROVED

Our world-first recycled carpet backing technology which converts tonnes of waste carpet into Flashbac recycled backing has been patented.

NEW CAMPAIGN PROMOTES KIWI QUALITY

Cavalier Bremworth has continued to promote the merits of its wool carpet with its ongoing series of animated TV commercials – the most recent being the focus on Cavalier Bremworth's unique ability to control the quality of its carpet from the farm gate to the floor.

SOHO COLLECTION LAUNCHED AS EXCLUSIVE CAVALIER BREMWORTH BRAND FOR NZ RETAILER

The Soho Collection is a capsule collection of six wool carpet ranges made exclusively for Carpet Court in New Zealand as part of Cavalier Carpets' continuing focus on its branding strategy and as part of that process of rationalising its product portfolio and actively supporting its channel partners.

NEW CHRISTCHURCH TRADE-ONLY SHOWROOM AND OFFICE OPENS

In recognition of the market opportunities presented by the Christchurch earthquake rebuild, Cavalier Bremworth opened its first trade-only showroom in the city in October.

Sited at 119 Wrights Road, Addington, the spacious showroom features the entire broadloom carpet ranges from Cavalier Bremworth, the Bremworth and Habitat Collections and Cavalier Commercial.

The showroom also includes the full flooring range from Ontera and Norman Ellison Carpets and has a spacious 10-seat meeting room that is available for use by specifiers and their clients.

ONTERA LAUNCHES 'DANXIA'

Inspired by the unique geological phenomenon known as Danxia landform, Ontera's Danxia range is a rich combination of colour, design and texture to evoke calmness, serenity and well-being in working spaces by connecting with distinctive natural beauty.

Danxia, which means 'red sunset', is not a place, but the name of an extraordinarily unique type of landform.

Found in several locations throughout China and often referred to as the 'Rainbow Mountains', Danxia landform is characterised by spectacular red cliffs, incredibly colourful mountain ranges, contrasting forests, winding rivers and majestic waterfalls.

Ontera's Danxia range of modular carpets presents customers with eight designs, each in six distinct colours.

Ontera
A STEP AHEAD

LATTICE

Defined by its precise loop construction, Lattice - one of Cavalier Bremworth's pure wool residential carpet - is durable, family-friendly, easy-care, soft and great looking. Available in both heathered and plain options, Lattice has a very tailored, yet not overly formal, appearance.

CHAIRMAN'S & MANAGING DIRECTOR'S REPORT

YEAR ENDED 30 JUNE 2014

Dear Shareholders,

On behalf of the Board of Directors, we have pleasure in presenting our 2014 Annual Report, which incorporates the audited financial statements of the Company and its subsidiaries for the year ended 30 June 2014.

Colin McKenzie, Managing Director

Alan James, Chairman

GROUP ACTIVITIES

The Group's principal activities comprise the Cavalier Bremworth and Norman Ellison Carpets broadloom carpet businesses, the Ontera carpet tile operation, the Elco Direct wool procurement business and the Radford felted yarn operation.

Cavalier Bremworth and Norman Ellison Carpets are based in Auckland. They also operate out of the other major cities in New Zealand and Australia and have warehousing and distribution facilities located in Auckland, Sydney and Brisbane.

Sydney-based Ontera Modular Carpets is one of Australasia's leading carpet tile manufacturers.

Elco Direct, the wool procurement business, acquires wool for the Group's woollen carpet businesses and for the New Zealand wool exporting industry at large.

The Radford felted yarn operation is a highly respected world-class producer of premium felted wool yarns which are sold to high-end rug and carpet makers around the world, including the Group's broadloom carpet operation, Cavalier Bremworth.

The Group also has a 50% interest in Cavalier Wool Holdings Limited (CWH), which operates two commission wool scouring businesses, Hawkes Bay Woolscourers in the North Island and Canterbury Woolscourers in the South Island. It provides commission wool scouring services for the wool exporting industry and for the Group's woollen carpet operations.

FINANCIAL PERFORMANCE

The Group achieved an audited after tax profit for the year to 30 June 2014 of $5.8 million, compared with a $3 million after tax profit in 2013. While this represents a 91% increase in tax-paid profit on the previous year, the Directors believe that it is more appropriate to compare the current year's profit with the previous year's normalised result (that is, reported profit excluding restructuring costs).

The Group has not made the distinction between reported profit and normalised profit in the current year because it did not incur any material restructuring costs during the year. This is to be contrasted with 2013, when it incurred $3.6 million of net restructuring costs after tax, relating mainly to the consolidation of tufting at its main tufting site in Papatoetoe.

As a consequence and on a like-for-like basis, excluding the $3.6 million of net restructuring costs from the 2013 tax-paid result, the current year's $5.8 million profit can be compared with a normalised 2013 profit of $6.6 million, a 13% decrease.

The 13% decrease in normalised tax-paid result is disappointing and is due largely to the extent to which the Group's share of profit of 50%-owned CWH had dropped. Despite the challenging operating conditions, particularly for the carpet business in Australia, and the strong NZD, the Group managed to record improved earnings for the carpet and felted yarn operations, while achieving a profit in line with the previous year for its wool procurement business.

The Directors note that the $5.8 million tax-paid profit is at the upper end of the revised earnings guidance range of between $5 million and $6 million given to the market in June 2014.

FINANCIAL PERFORMANCE

Year ended 30 June 2014	2014 $000s	2013 $000s	Change
Revenue	**$200,642**	**$201,739**	**(1%)**
Earnings before interest and tax (Normalised)[1]	8,760	5,814	51%
Interest	(3,484)	(3,740)	(7%)
Share of equity-accounted investee profit (tax-paid)	2,044	5,013	(59%)
Profit before tax (Normalised)[1]	7,320	7,087	3%
Income tax	(1,530)	(463)	230%
Profit after tax (Normalised)[1]	**5,790**	**6,624**	**(13%)**
Restructuring costs (net of tax)	-	(3,594)	(100%)
Profit after tax (Reported)	**$5,790**	**$3,030**	**91%**
Earnings per share (cents) (Normalised)[1]	8.5	9.7	(12%)
Earnings per share (cents) (Reported)	8.5	4.4	93%

[1] Normalised is a non–GAAP (Generally Accepted Accounting Practice) measure. A reconciliation between reported and normalised has been included in page 92 of this report.

FINANCIAL POSITION

The Group's assets as at 30 June 2014 totalled $198.1 million, an increase of $1.4 million on the previous year. This increase can be attributed to inventories to support Cavalier's continuing expansion into synthetic and felted carpets, partly offset by reductions in cash reserves and fixed assets, the latter as a result of reduced capital spends and the impact of the strong NZD on translation of Australian fixed assets.

Group net interest-bearing debt at year-end was $58.8 million, $5.6 million up on the previous year's $53.2 million. As a result, net interest-bearing debt to equity has increased from 36:64 the previous year to 39:61 at balance date.

Shareholders' equity as at 30 June 2014 of $93 million is $1 million down on 2013, with the reduction due to tax-paid profit just falling short of the movement in the foreign currency translation reserve and dividends paid during the year, net of the amount reinvested under the dividend reinvestment plan, as follows:

	$000
Shareholders' equity at 30 June 2013	93,918
to which was added:	
Profit after tax	5,790
Issue of new shares under the dividend reinvestment plan	689
Changes in amounts payable to non-controlling interests	132
from which was deducted:	
Movement in the cash flow hedging reserve	(52)
Movement in the foreign currency translation reserve	(2,733)
Dividends paid	(4,785)
Shareholders' equity at 30 June 2014	**$92,959**

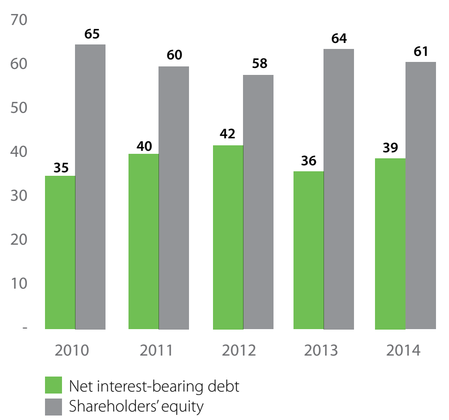
CASH FLOWS

Cash inflows from operating activities were $615,000 for the year. These can be compared with $11.7 million for the previous comparable period, with the marked turnaround attributable mainly to the increase in inventories referred to earlier and restructuring costs spent, offset by improved profits.

A net $2.2 million was spent on capital projects and $4.1 million was paid out as dividends during the year.

As a result, net interest-bearing debt for the year was up $5.6 million, with $2.6 million coming from increased borrowings and $3 million from a reduction in cash reserves.

Net interest-bearing debt : equity ratio



SEGMENT REVIEWS

CARPET BUSINESS

Our carpet business specialises in broadloom carpets and carpet tiles, with New Zealand and Australia its main markets and a small, but increasing, volume sold in the rest of the world.

Carpet revenue for 2014 is $164 million, down 3% on the previous year's $169 million – with volume largely unchanged and the reduction in revenue mainly due to the stronger NZD on Australian sales.

The segment result of $8.4 million is $2 million/31% up on the $6.4 million normalised (that is, excluding restructuring costs) segment result recorded in 2013, mainly as a result of the efficiency gains from the consolidation of tufting undertaken during the year.

As a consequence, segment result as a percentage of revenue was 5.2% for the year, compared with 3.8% normalised for the previous year.

New Zealand Market

The New Zealand carpet market has continued to improve on the back of the strengthening New Zealand economy, and carpet sales are marginally up on the previous year. Margins have also lifted, as have profits.

However, the lower-priced segment of the New Zealand market remains very competitive.

The Habitat Collection, Cavalier's mid-to-top end synthetic carpet offering, has progressed well, and volumes have exceeded expectations. We are anticipating further sales growth in these synthetic carpets as more products are introduced into the market.

The growth in high-end felted wool carpets, while off a small base, has also been encouraging, and we are expecting further growth in this area.

Australian Market

Operating conditions in Australia have remained very challenging, reflecting to a large extent the weaker underlying fundamentals in the Australian economy.

Volumes and margins have been under pressure, particularly for the mid-to-lower end of the market as a result of the intense price-based competition prevailing. The strong NZD:AUD has also had a negative impact on Australian revenue and margins, as have stock clearances arising from the actions taken to rationalise our product portfolio.

On a more pleasing note, sales of Habitat Collection synthetic products, which we introduced in July 2013, have gone well and volumes sold are above initial targets, with further growth expected.

Business Improvement Initiatives

The consolidation of tufting that was announced towards the end of the 2013 financial year was completed in early 2014, with all tufting now centralised at the Group's main tufting facility in Papatoetoe.

The Habitat Collection range of synthetic carpets that was launched in March 2013 in New Zealand, and July 2013 in Australia, has been well-received, with sales exceeding our initial targets on both sides of the Tasman. New product introductions currently underway are expected to underpin further growth in Habitat Collection sales.

The simplification of our brand offerings was completed during the year, with Cavalier Bremworth representing the mid-to-high end and Norman Ellison Carpets the mid-to-lower end. Steps to rationalise our product offerings are also well-advanced.

WOOL BUSINESS

Our wool business comprises the Elco Direct wool procurement operation and our 50% interest in commission wool scourer, CWH. Both these operations service the wool industry at large as well as our own broadloom carpet operation.

Wool Procurement

2014 was another solid year for Elco Direct, with both profit and volume sold almost identical to the previous year. Revenue was, however, 22% up on the previous year as a result of the higher wool price prevailing during 2014.

Wool Scouring

The Group's share of tax-paid earnings of CWH for the current year is $2 million, a 59% drop on the previous year's record of $5 million.

The drop in CWH profitability can be attributed mainly to the dramatic reduction in wool grease price, which has fallen by almost 61% since the beginning of 2013, and a reduction in the volume of wool available for scouring.

Much of the reduction in wool grease price can be traced to a disease affecting the shrimp industry in Asia, where wool grease is a major ingredient in the manufacture of shrimp feed. With the disease now under control, demand is anticipated to recover, and we are expecting wool grease price to gradually increase in the next financial year.

Wool scouring in New Zealand continues to be adversely affected by excess scouring capacity, with sheep numbers, and therefore wool available for scouring, continuing to decline. CWH has previously considered the merits of, and remains committed to, further rationalisation of the industry in order to ensure that wool scouring in New Zealand remains competitive.

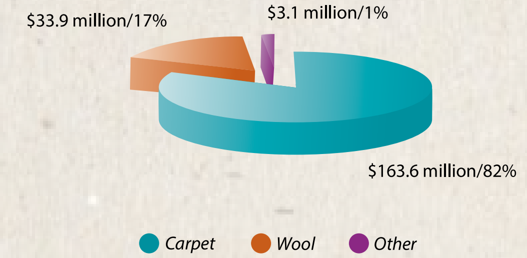
The Directors will advise shareholders should there be any material developments.

YARN BUSINESS

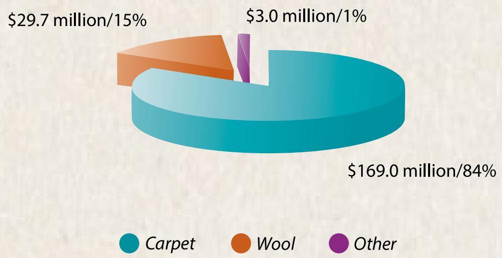
The yarn business comprises the Radford felted yarn operation, a supplier of premium felted woollen yarns for the Cavalier Bremworth broadloom carpet operation and for high-end broadloom carpet and rug manufacturers in the USA and Europe.

Radford had a much-improved 2014, with sales and volumes significantly better than the previous year mainly as a result of the increased demand for felted yarns by the Cavalier Bremworth broadloom carpet business as it worked to increase its sales of felted carpet.

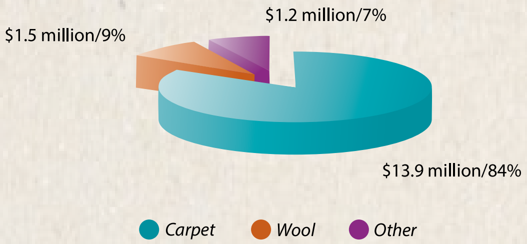
Contribution to Group operating revenue 2013/14



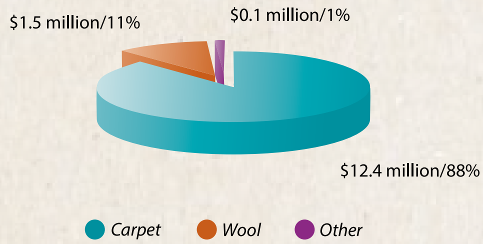
Contribution to Group operating revenue 2012/13



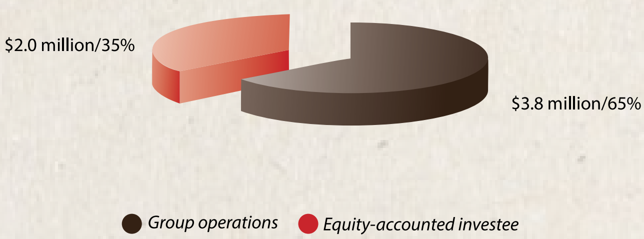
Segment result before interest, tax, depreciation and restructuring costs 2013/14



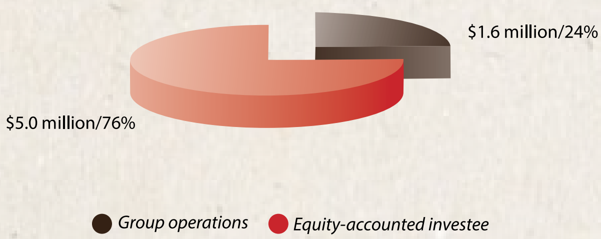
Segment result before interest, tax, depreciation and restructuring costs 2012/13



Contribution to Group normalised tax-paid earnings 2013/14



Contribution to Group normalised tax-paid earnings 2012/13



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OUTLOOK

The 2014 tax-paid profit of $5.8 million is down 13% on the previous year's $6.6 million normalised and well below original projections signalled to shareholders. Difficult trading conditions in Australia and the strong NZD adversely affected what would otherwise have been a much-improved result for the broadloom carpet business. At the same time, it was always going to be a challenge for CWH to match the previous year's record results because of the dramatic fall in wool grease prices.

Our 2015 budget is showing a modest increase in earnings on the $5.8 million tax-paid for 2014.

Upsides include a full year's benefits from the consolidation of tufting which we completed in 2014, continuing growth in synthetic and felted carpet sales, launch of new products that had been scheduled for 2015, growth in rest of world markets and lift in wool grease prices.

Downsides include the impact of continuing increase in wool price on woollen carpet margins, soft market conditions in Australia for both residential and commercial carpets and strong NZD adversely affecting the conversion of our AUD-denominated sales into NZD.

As it is still too early in the financial year to be providing shareholders with a meaningful earnings guidance for 2015, the Directors will give some indication of the full year outlook at the Annual Meeting of shareholders on 25 November 2014.

DIVIDENDS

As a result of the recent earnings downgrade and the weaker-than-expected earnings, and after careful consideration of cash flow and capital requirements, the Directors have decided that no final dividend will be payable for the 2014 financial year.

The Directors will keep the dividend policy under active review and provide shareholders with an update at the November Annual Meeting.

RE-ELECTION OF DIRECTORS

Under NZX Main Board Listing Rule 3.3.11, and in accordance with the Constitution of the Company, 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) must retire by rotation at each Annual Meeting of shareholders. The Directors to retire are those who have been longest in office since their last election or re-election, and if they are eligible, they may offer themselves for re-election by shareholders at the Annual Meeting.

The Directors to so retire at the November Annual Meeting are Mr Alan James and Mrs Sarah Haydon. Mr James was last re-elected to the Board in November 2011 and Mrs Haydon was elected in November 2012.

Mr James and Mrs Haydon, being eligible for re-election to the Board, are offering themselves for re-election at the Annual Meeting.

ELECTION OF DIRECTOR

Under NZX Main Board Listing Rule 3.3.6, and in accordance with the Constitution of the Company, Directors appointed by the Board in between Annual Meetings must retire at the next Annual Meeting, and if they are eligible, they may offer themselves for election by shareholders at the Annual Meeting.

The Director to so retire at the November Annual Meeting is Mr Graeme Edmond.

Mr Edmond, being eligible for election to the Board, is offering himself for election at the Annual Meeting.

AUDITORS

KPMG have indicated their willingness to continue in office in accordance with section 200 of the Companies Act 1993 ("the Act"). A resolution authorising the Directors to fix the remuneration of the auditors will be put to shareholders at the Annual Meeting.

NON-AUDIT SERVICES AND AUDITOR INDEPENDENCE

The Directors confirm that KPMG also provided the Group with tax and accounting services during the year. The fees charged for these services were $70,000.

The Directors are satisfied that the independence of the external auditors has not been compromised.

KPMG did not provide the Group with any other non-audit services during the year.

DIRECTORS' DISCLOSURES

The various disclosures required of the Directors under the Act are set out on pages 94 to 97 of the Annual Report.

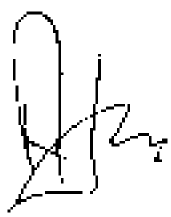
OTHER DISCLOSURES

The other disclosures required of the Company under the Act are set out on pages 98 and 99 of the Annual Report.

ACKNOWLEDGEMENTS

We take this opportunity to publicly record our appreciation of the efforts, dedication and commitment of all staff throughout the Group during the year.

For and on behalf of the Board of Directors



Alan James
Chairman
17 September 2014

Colin McKenzie
Managing Director
17 September 2014

DI JONES REAL ESTATE AGENCY

Di Jones boutique real estate agency in Woollahra recently underwent a refurbishment and interior design makeover, resulting in an amazingly deluxe and luxurious outcome. The fit out included the installation of product from the Ontera plush cut pile range, Envisions Base Colours. The tiles were cut in half and laid in a stripe formation providing a unique and classic styled look to the interior.

Location - Sydney, NSW
Specifier - Giles Tribe Architects
Product - Ontera Envisions Base Colours

BOARD OF DIRECTORS

A M (Alan) James

B.Tech. (Hons), Dip.Bus.Admin.

- Independent Director
- Chair of the Board of Directors
- Chair of the Board's Remuneration and Nomination Committees and member of the Board's Audit Committee
- Managing Director from August 1993 to April 2004
- Non-executive Director since April 2004

G C W (Grant) Biel

B.E. (Mech.)

- Non-independent Director
- Deputy Chair of the Board of Directors
- Member of the Board's Audit, Remuneration and Nomination Committees
- Executive Director from July 1984 to September 1995
- Non-executive Director since October 1995
- Co-founder of the Cavalier Bremworth broadloom carpet operation
- **Other directorships include** – Auckland Air Charter Limited, Auckland Jet Centre Limited, Heli Harvest Limited, International Helicopter Leasing Limited and Westburn Investments Limited

G D (Graeme) Edmond

BCA (Hons.)

- Independent Director
- Appointed February 2014
- Member of the Board's Audit, Remuneration and Nomination Committees
- **Other directorships include** – alphaXRT Limited, CHT Healthcare Trust and Specsavers New Zealand Limited

G S (Graeme) Hawkins

B.Sc., B.Com., ACA, DistFInstD

- Independent Director
- Appointed October 1998
- Chair of the Board's Audit Committee and member of the Board's Remuneration and Nomination Committees
- **Other directorships include** – Ports of Auckland Limited, Southern Cross Health Trust and Southern Cross Medical Care Society

S E F (Sarah) Haydon

B.Sc., ACA, MInstD

- Independent Director
- Appointed August 2012
- Member of the Board's Audit, Remuneration and Nomination Committees
- **Other directorships include** – The Institute of Geological and Nuclear Sciences Limited and New Zealand Riding for the Disabled Association
- Council member of Unitec Institute of Technology

C A (Colin) McKenzie

Dip.Wool&WoolTech., MInstD

- Managing Director since March 2012

CORPORATE GOVERNANCE STATEMENT

YEAR ENDED 30 JUNE 2014

ROLE OF THE BOARD

The Board of Directors is responsible for the management and supervision of the business and affairs of the Company.

The Board discharges this responsibility by ensuring that adequate systems, built around sound and proven procedures, policies and guidelines, are in place to ensure that:

- business strategies, plans and budgets are reviewed and approved;
- performances against business objectives are monitored;
- significant business risks are identified, monitored and mitigated;
- the multitude of laws that affect the Company and its business activities are complied with;
- such matters as significant acquisitions and disposals, delegated authority limits and executive remuneration are reviewed and approved; and
- all matters of importance are brought to its attention through a system of prompt and comprehensive reporting.

In discharging its responsibility, the Board exercises, on behalf of the shareholders, all the powers of the Company not otherwise required by law or the Constitution to be exercised by shareholders.

Responsibility for the day-to-day operation and administration of the Company is delegated to the Managing Director, who is accountable to the Board.

COMPOSITION OF THE BOARD

As at 30 June 2014, the Board comprises five non-executive Directors (including the Chair and the Deputy Chair) and one executive Director (the Managing Director).

Pursuant to NZX Main Board Listing Rule 3.3.1, two of the Directors shall be independent Directors.

The Board has determined, pursuant to NZX Main Board Listing Rule 3.3.2, that Mr G D Edmond, Mr G S Hawkins, Mrs S E F Haydon and Mr A M James are independent Directors of the Company. Mr G C W Biel is not an independent Director because he is an associate of a substantial security holder in the Company. Mr C A McKenzie is not an independent Director because he currently holds the positions of Managing Director and Chief Executive Officer of the Company.

The Board comprises Directors with a broad range of experience and expertise and whose core competencies include accounting and finance, business judgement, marketing, management, industry knowledge, strategic vision and information technology.

The profile of the Directors can be found on page 16.

Pursuant to NZX Main Board Listing Rule 3.3.11, 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. 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 accompanied by the consent in writing of that person to the nomination.

BOARD 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 these scheduled meetings.

The attendance record of the Directors at the nine Board meetings held during the year ended 30 June 2014 is as follows:

	Attendance record
G C W Biel	9 out of 9
G D Edmond – appointed 1 February 2014	4 out of 4
G S Hawkins	9 out of 9
S E F Haydon	9 out of 9
A M James	9 out of 9
C A McKenzie	9 out of 9
K L Thorpe – retired 13 December 2013	5 out of 5

JAGUAR AND LAND ROVER SHOWROOM

The recently completed Jaguar and Land Rover showroom in Concord features a very slick and polished interior fit out, including a custom coloured and coordinated hatched pattern modular carpet. The carpet design features as a rug-style drop-in near the showroom floor and in the main office areas throughout the building.

Location - Sydney, NSW
Specifier - Jaguar & Land Rover Australia
Product - Ontera DyeStart (Custom)

REMUNERATION OF DIRECTORS

Unless specifically provided for in the Constitution, the Board may not exercise the power conferred by section 161 of the Companies Act 1993 to authorise any payment of remuneration to Directors in their capacity as such without the prior approval of shareholders.

Shareholders have previously resolved that the total remuneration to be paid to the non-executive Directors be fixed at a sum not exceeding $350,000 per annum, this sum to be divided amongst them in such proportions and in such manner as they may determine. The Directors advise that the total remuneration paid to the non-executive Directors for the year ended 30 June 2014 was $287,677.

The remuneration package of the Managing Director, who is not entitled to any remuneration in his capacity as a Director, is reviewed by the Board's Remuneration Committee before being approved by the Board. The Board's Remuneration Committee is composed entirely of non-executive Directors. The Managing Director does not participate in decisions affecting his remuneration package.

The remuneration of the Directors can be found on page 97.

COMMITTEES OF THE BOARD

The Board has formally-constituted Audit, Remuneration and Nomination Committees.

Audit Committee

The objective of the Audit Committee is to recommend the principles and standards with respect to internal controls, accounting policies, the nature, scope, objectives and functions of internal audit, and external 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, but at least twice a year, with management, the external auditors, and other internal auditors appointed from time to time. 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 independent auditors and to confirm that the auditors' independence has not been impaired. It is a policy of the Board that the independent auditors have unrestricted access to the Audit Committee, and it is standard practice for the Committee to meet twice a year with the independent auditors in the absence of executives.

The members of the Audit Committee as at 30 June 2014 were Mr G S Hawkins (Chairman), Mr G C W Biel, Mr G D Edmond, Mrs S E F Haydon and Mr A M James. Mr G S Hawkins has a background in accounting and is a member of Chartered Accountants Australia and New Zealand. Mrs S E F Haydon also has a background in accounting having previously held senior finance roles in a number of companies, including 10 years as Chief Financial Officer of OfficeMax New Zealand. Mrs Haydon is a member of the Institute of Chartered Accountants of England and Wales.

The attendance record of the members of the Audit Committee at the two Audit Committee meetings held during the year ended 30 June 2014 is as follows:

	Attendance record
G C W Biel (non-independent Director)	2 out of 2
G D Edmond (independent Director) – appointed 1 February 2014	1 out of 1
G S Hawkins (independent Director)	2 out of 2
S E F Haydon (independent Director)	2 out of 2
A M James (independent Director)	2 out of 2
K L Thorpe (independent Director) – retired 13 December 2013	1 out of 1

The Managing Director is not a member of the Audit Committee, and his attendances at Audit Committee meetings is by invitation and then only in his capacity as an executive.

MUDDLE BAR

This custom tartan layout, utilising the Millitron® Technology, seams together matched Dulux colours blue and charcoal on 009 white base to give the finished product not only the feeling of comfort, but also a very modern appearance.

Location - Canberra, ACT
Specifier - Archertec
Product - Ontera DyeStart (Custom)

Remuneration Committee

The objective of the Remuneration Committee is to assist the Board in the establishment of remuneration policies and practices for, and in discharging the Board's responsibilities in relation to remuneration-setting and review of, the non-executive Directors, the Managing Director and such other senior executives (including the Managing Director's direct reports and their direct reports) as it is designated to consider.

The Remuneration Committee meets as and when required, but at least once a year, to consider and recommend to the Board the remuneration package of the Managing Director and to approve the remuneration packages of other senior executives of the Company. In considering or approving the remuneration packages of the Managing Director and other senior executives, the Committee relies on 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 2014 were Mr A M James (Chairman), Mr G C W Biel, Mr G D Edmond, Mrs S E F Haydon and Mr G S Hawkins.

All the members of the Remuneration Committee were present at the one Remuneration Committee meeting held during the year ended 30 June 2014.

The Managing Director is not a member of the Remuneration Committee, and his attendances at Remuneration Committee meetings is by invitation and then only in his capacity as an executive.

Nomination Committee

The objective of the Nomination Committee is to assist the Board in planning the Board's composition, developing succession plans, assessing the competencies required of prospective directors (both non-executive and executive), identifying prospective directors, establishing their degree of independence and making recommendations to the Board accordingly.

The Nomination Committee meets as and when required, but at least once a year.

The members of the Nomination Committee as at 30 June 2014 were Mr A M James (Chairman), Mr G C W Biel, Mr G D Edmond, Mrs S E F Haydon and Mr G S Hawkins.

All the members of the Nomination Committee were present at the one Nomination Committee meeting held during the year ended 30 June 2014.

The Managing Director is not a member of the Nomination Committee, and his attendances at Nomination Committee meetings is by invitation and then only in his capacity as an executive.

CORPORATE GOVERNANCE BEST PRACTICE

The Company has formulated a Code of Conduct for the Directors, executive officers and employees of the Company and its subsidiaries. This Code of Conduct addresses such matters as securities trading, continuous disclosures, confidentiality of information, conflicts of interest, donations and internal reporting of concerns.

Pursuant to NZX Main Board Listing Rule 10.4.5(i), the Company believes that its corporate governance processes do not materially differ from the principles set out in the NZX Corporate Governance Best Practice Code.

The Code of Conduct and the underlying policies relating to corporate governance can be found on the Company's website www.cavcorp.co.nz.

SHAREHOLDER INFORMATION

ANNUAL MEETING OF SHAREHOLDERS

Time and date	10 a.m., Tuesday, 25 November 2014
Venue	Ellerslie Event Centre, 80 – 100 Ascot Avenue, Greenlane, Auckland

CORPORATE CALENDAR

25 November 2014	2014 Annual Meeting of shareholders
31 December 2014	End of 2015 half year
Late February 2015	Announcement of 2015 half year result
Mid-March 2015	Release of 2015 half year report
30 June 2015	End of 2015 financial year
Late August 2015	Announcement of 2015 annual result
September 2015[1]	Period for nomination of directors to the Board
End of September 2015	Release of 2015 Annual Report

[1] Actual opening and closing dates to be confirmed. NZX Main Board Listing Rule 3.3.5 requires the Company to make an announcement to the market of the closing date for director nominations no less than 10 business days prior to that date. The closing date for director nominations shall not be more than two months before the date of the Annual Meeting at which the election of directors is to take place.

SHAREHOLDER ENQUIRIES

All shareholder enquiries should, in the first instance, be directed to the Company's share registrar, Computershare Investor Services Limited, details of which can be found in the Corporate Directory (refer to page 104 of the Annual Report).

Shareholders can also view the details relating to their holdings, including transactions and payments history, change their addresses and update their payment instructions online by joining Computershare Investor Services Limited's Investor Centre. Shareholders can do this by visiting www.computershare.co.nz/investorcentre and will need their Common Shareholder Number (CSN) or Holder Number and their FASTER Identification Number (FIN).

FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

DIRECTORS' RESPONSIBILITY STATEMENT

CAVALIER
CORPORATION

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation of the 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 Company and Group as at balance date and of their 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 financial statements of the Company and Group 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 Company and Group and facilitate the compliance of the financial statements with the Financial Reporting Act 1993, have been kept.

SAFEGUARDING OF ASSETS AND INTERNAL CONTROLS

The Directors consider that they have taken adequate steps to safeguard the assets of the Company and 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 are pleased to present, on pages 24 to 88, the financial statements of the Company and Group for the year ended 30 June 2014.

These financial statements were authorised for issue by the Directors on 22 August 2014 and, as required by section 211(1)(b) of the Companies Act 1993 and sections 10 and 13 of the Financial Reporting Act 1993, are signed and dated as at that date.

For and on behalf of the Directors:

A M James
Chairman

C A McKenzie
Managing Director

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF CAVALIER CORPORATION LIMITED

REPORT ON THE COMPANY AND GROUP FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Cavalier Corporation Limited ("the Company") and the Group, comprising the Company and its subsidiaries, on pages 24 to 88. The financial statements comprise the statements of financial position as at 30 June 2014, the income statements and statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, for both the Company and the Group.

DIRECTORS' RESPONSIBILITY FOR THE COMPANY AND GROUP FINANCIAL STATEMENTS

The Directors are responsible for the preparation of Company and Group financial statements in accordance with Generally Accepted Accounting Practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the Directors determine is necessary to enable the preparation of Company and Group financial statements that are free from material misstatement whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these Company and Group financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Company and Group financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Company and Group financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company and Group's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our firm has also provided other services to the Company and Group in relation to taxation and accounting advisory services. Subject to certain restrictions, partners and employees of our firm may also deal with the Company and Group on normal terms within the ordinary course of trading activities of the business of the Company and Group. These matters have not impaired our independence as auditor of the Company and Group. The firm has no other relationship with, or interest in, the Company and Group.

OPINION

In our opinion, the financial statements on pages 24 to 88:

- comply with Generally Accepted Accounting Practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the Company and the Group as at 30 June 2014 and of the financial performance and cash flows of the Company and the Group for the year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by Cavalier Corporation Limited as far as appears from our examination of those records.

KPMG

22 August 2014
Auckland

INCOME STATEMENT

For the year ended 30 June 2014

		GROUP		COMPANY	
	Note	**2014 $000**	2013 $000	**2014 $000**	2013 $000
Revenue	3	**200,642**	201,739	**1,942**	2,400
Cost of sales		**(147,412)**	(150,108)	**–**	–
Gross profit		**53,230**	51,631	**1,942**	2,400
Other income and gains/(losses)	4	**(56)**	16	**–**	–
Distribution expenses		**(33,772)**	(33,827)	**–**	–
Administration expenses	5	**(10,642)**	(12,298)	**(1,902)**	(2,209)
Restructuring costs	23, 27	**–**	(4,991)	**–**	–
Reversal of impairment of trademark	10	**–**	292	**–**	–
Results from operating activities		**8,760**	823	**40**	191
Finance income	7	**–**	–	**–**	–
Finance expenses	7	**(3,484)**	(3,740)	**–**	–
Net finance costs		**(3,484)**	(3,740)	**–**	–
Share of profit of equity-accounted investee (net of income tax)	11	**2,044**	5,013	**–**	–
Profit before income tax		**7,320**	2,096	**40**	191
Income tax (expense)/benefit	8	**(1,530)**	934	**(10)**	(60)
Profit after tax for the period		**$5,790**	$3,030	**$30**	$131
Profit after tax attributable to:					
Shareholders of Cavalier Corporation Limited		**5,790**	3,030		
Non-controlling interests		**–**	–		
Profit after tax for the period		**$5,790**	$3,030		
Basic and diluted earnings per share (cents)	16	**8.5**	4.4		

This statement is to be read in conjunction with the notes on pages 31 to 88.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2014

	Note	GROUP 2014 $000	GROUP 2013 $000	COMPANY 2014 $000	COMPANY 2013 $000
Profit after tax for the period		**5,790**	3,030	**30**	131
Other comprehensive income that may be reclassified subsequently to profit or loss					
Effective portion of changes in fair value of cash flow hedges		**1,116**	2,364	**–**	–
Net change in fair value of cash flow hedges transferred to profit or loss		**(1,189)**	(32)	**–**	–
Foreign currency translation differences for foreign operations		**(2,733)**	(1,985)	**–**	–
Income tax on other comprehensive income	8, 12	**21**	(653)	**–**	–
		(2,785)	(306)	**–**	–
Other comprehensive income not reclassified subsequently to profit or loss					
Changes in amounts payable to non-controlling interests	19	**132**	320	**–**	–
Other comprehensive income for the period, net of income tax		**(2,653)**	14	**–**	–
Total comprehensive income for the period		**$3,137**	$3,044	**$30**	$131
Total comprehensive income attributable to:					
Shareholders of Cavalier Corporation Limited		**3,137**	3,044	**30**	131
Non-controlling interests		**–**	–	**–**	–
Total comprehensive income for the period		**$3,137**	$3,044	**$30**	$131

This statement is to be read in conjunction with the notes on pages 31 to 88.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2014

	Note	GROUP 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 2013		$21,157	$994	$369	$1,448	$69,950	$93,918
Total comprehensive income for the period							
Profit after tax		–	–	–	–	5,790	5,790
Other comprehensive income that may be reclassified subsequently to profit or loss							
Changes in fair value of cash flow hedges (net of tax)		–	(52)	–	–	–	(52)
Foreign currency translation differences for foreign operations		–	–	(2,733)	–	–	(2,733)
		–	(52)	(2,733)	–	–	(2,785)
Other comprehensive income not reclassified subsequently to profit or loss							
Changes in amounts payable to non-controlling interests	19	–	–	–	–	132	132
Total other comprehensive income		–	(52)	(2,733)	–	132	(2,653)
Total comprehensive income for the period		–	(52)	(2,733)	–	5,922	3,137
Transactions with owners, recorded directly in equity							
Dividends paid to equity holders of the Company	17	–	–	–	–	(4,785)	(4,785)
Issue of ordinary shares	17	689	–	–	–	–	689
Equity-settled share-based payments	18, 31	–	–	–	–	–	–
Total equity at 30 June 2014		$21,846	$942	$(2,364)	$1,448	$71,087	$92,959

This statement is to be read in conjunction with the notes on pages 31 to 88.

STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 30 June 2013

	Note	GROUP					
		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 2012		$21,157	$(685)	$2,354	$1,429	$66,600	$90,855
Total comprehensive income for the period							
Profit after tax		–	–	–	–	3,030	3,030
Other comprehensive income that may be reclassified subsequently to profit or loss							
Changes in fair value of cash flow hedges (net of tax)		–	1,679	–	–	–	1,679
Foreign currency translation differences for foreign operations		–	–	(1,985)	–	–	(1,985)
		–	1,679	(1,985)	–	–	(306)
Other comprehensive income not reclassified subsequently to profit or loss							
Changes in amounts payable to non-controlling interests	19	–	–	–	–	320	320
Total other comprehensive income		–	1,679	(1,985)	–	320	14
Total comprehensive income for the period		–	1,679	(1,985)	–	3,350	3,044
Transactions with owners, recorded directly in equity							
Dividends paid to equity holders of the Company	17	–	–	–	–	–	–
Equity-settled share-based payments	18, 31	–	–	–	19	–	19
Total equity at 30 June 2013		$21,157	$994	$369	$1,448	$69,950	$93,918

This statement is to be read in conjunction with the notes on pages 31 to 88.

STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 30 June 2014

	Note	COMPANY			
		Share Capital $000	Share Rights Reserve $000	Retained Earnings $000	Total Equity $000
Total equity at 1 July 2013		**$21,157**	**$1,448**	**$10,673**	**$33,278**
Total comprehensive income for the period					
Profit after tax		**–**	**–**	**30**	**30**
Other comprehensive income		**–**	**–**	**–**	**–**
Total comprehensive income for the period		**–**	**–**	**30**	**30**
Transactions with owners, recorded directly in equity					
Dividends paid to equity holders of the Company	17	**–**	**–**	**(4,785)**	**(4,785)**
Issue of ordinary shares	17	**689**	**–**	**–**	**689**
Equity-settled share-based payments	18, 31	**–**	**–**	**–**	**–**
Total equity at 30 June 2014		**$21,846**	**$1,448**	**$5,918**	**$29,212**

For the year ended 30 June 2013

	Note	COMPANY			
		Share Capital $000	Share Rights Reserve $000	Retained Earnings $000	Total Equity $000
Total equity at 1 July 2012		$21,157	$1,429	$10,542	$33,128
Total comprehensive income for the period					
Profit after tax		–	–	131	131
Other comprehensive income		–	–	–	–
Total comprehensive income for the period		–	–	131	131
Transactions with owners, recorded directly in equity					
Dividends paid to equity holders of the Company	17	–	–	–	–
Equity-settled share-based payments	18, 31	–	19	–	19
Total equity at 30 June 2013		$21,157	$1,448	$10,673	$33,278

This statement is to be read in conjunction with the notes on pages 31 to 88.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Note	GROUP 2014 $000	GROUP 2013 $000	COMPANY 2014 $000	COMPANY 2013 $000
ASSETS					
Property, plant and equipment	9	**63,900**	68,932	**–**	–
Intangible assets	10	**7,794**	7,794	**–**	–
Investments in subsidiaries		**–**	–	**34,839**	34,839
Investment in equity-accounted investee	11	**25,900**	23,856	**–**	–
Deferred tax asset	12	**3,107**	2,797	**156**	166
Total non-current assets		**100,701**	103,379	**34,995**	35,005
Cash and cash equivalents	13	**2,375**	5,932	**2**	3
Advances to subsidiaries	31	**–**	–	**3,266**	2,934
Trade receivables, other receivables and prepayments	14	**25,910**	27,650	**–**	–
Inventories	15	**66,847**	56,965	**–**	–
Derivative financial instruments	25	**2,227**	2,518	**–**	–
Tax receivable		**–**	193	**–**	172
Total current assets		**97,359**	93,258	**3,268**	3,109
Total assets		**$198,060**	$196,637	**$38,263**	$38,114
EQUITY					
Share capital	17	**21,846**	21,157	**21,846**	21,157
Cash flow hedging reserve	17	**942**	994	**–**	–
Foreign currency translation reserve	17	**(2,364)**	369	**–**	–
Share rights reserve	17, 18	**1,448**	1,448	**1,448**	1,448
Retained earnings		**71,087**	69,950	**5,918**	10,673
Total equity		**92,959**	93,918	**29,212**	33,278
LIABILITIES					
Loans and borrowings	20	**61,220**	58,896	**–**	–
Employee benefits	21	**2,244**	2,444	**451**	486
Deferred income	22	**218**	291	**–**	–
Provisions	23	**3,901**	4,226	**–**	–
Total non-current liabilities		**67,583**	65,857	**451**	486
Bank overdraft	13	**–**	234	**–**	–
Loans and borrowings	20, 31	**–**	86	**–**	–
Advances from subsidiaries	31	**–**	–	**8,360**	4,176
Trade creditors and accruals	24	**27,258**	26,281	**67**	67
Provisions	23	**1,772**	3,416	**–**	–
Employee entitlements		**6,092**	6,090	**106**	107
Amounts payable to non-controlling interests	19	**65**	210	**–**	–
Deferred income	22	**67**	68	**–**	–
Derivative financial instruments	25	**639**	477	**–**	–
Provision for tax		**1,625**	–	**67**	–
Total current liabilities		**37,518**	36,862	**8,600**	4,350
Total liabilities		**105,101**	102,719	**9,051**	4,836
Total equity and liabilities		**$198,060**	$196,637	**$38,263**	$38,114

This statement is to be read in conjunction with the notes on pages 31 to 88.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2014

	Note	GROUP 2014 $000	GROUP 2013 $000	COMPANY 2014 $000	COMPANY 2013 $000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from customers		**202,002**	204,126	**–**	–
Cash paid to suppliers and employees		**(197,236)**	(188,525)	**(1,938)**	(3,816)
		4,766	15,601	**(1,938)**	(3,816)
Dividends received		**2**	3	**–**	–
Other receipts		**23**	22	**1,942**	2,400
GST (paid)/refunded		**(309)**	384	**–**	–
Interest paid		**(3,739)**	(3,575)	**–**	–
Income tax (paid)/refunded		**(128)**	(759)	**239**	276
Net cash flow from operating activities	26	**615**	11,676	**243**	(1,140)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		**300**	123	**–**	–
Acquisition of property, plant and equipment	9	**(2,494)**	(1,907)	**–**	–
Purchase consideration of non-controlling interests	19, 31	**(13)**	(530)	**–**	(530)
Dividends received from equity-accounted investee	11	**–**	3,750	**–**	–
Net cash flow from investing activities		**(2,207)**	1,436	**–**	(530)
CASH FLOWS FROM FINANCING ACTIVITIES					
Movements in bank borrowings		**2,735**	(9,262)	**–**	–
Movements in other borrowings	20, 31	**(86)**	(7)	**–**	–
Advances from subsidiaries	31	**–**	–	**3,852**	1,671
Dividends paid to equity holders of the Company	17	**(4,785)**	–	**(4,785)**	–
Shares issued	17	**689**	–	**689**	–
Net cash flow from financing activities		**(1,447)**	(9,269)	**(244)**	1,671
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(3,039)**	3,843	**(1)**	1
Cash and cash equivalents at beginning of the period		**5,698**	1,950	**3**	2
Effect of exchange rate changes on cash		**(284)**	(95)	**–**	–
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	13	**$2,375**	$5,698	**$2**	$3

This statement is to be read in conjunction with the notes on pages 31 to 88.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2014

1. GENERAL INFORMATION

Cavalier Corporation Limited ("Cavalier" or "Company") is a company that is domiciled and incorporated in New Zealand.

The Company is registered under the New Zealand Companies Act 1993. The Company is an issuer for the purposes of the New Zealand Financial Reporting Act 1993 and is, accordingly, a reporting entity that is required to comply with the provisions of both the Companies Act 1993 and the Financial Reporting Act 1993 and with New Zealand Generally Accepted Accounting Practice.

On 1 April 2014, the new Financial Reporting Act 2013 ("FRA 2013") came into force replacing the Financial Reporting Act 1993 in the process. FRA 2013 is effective for all for-profit entities with reporting periods beginning on or after 1 April 2014 and will therefore apply to the Company's 30 June 2015 financial year. It is expected that the change in legislation will have no material impact on the Company's obligation to prepare general purpose financial statements.

In addition to the change in legislation, the External Reporting Board of New Zealand ("XRB") has released a new accounting standards framework which establishes the financial standards to be applied to entities with statutory financial reporting obligations. The Company is currently reporting under New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"). Under the new XRB framework, management expects that the Company will continue to apply NZ IFRS as applicable for Tier 1 for-profit entities and that this will have no material impact on the preparation of the financial statements and the disclosures therein.

The principal activities of the Company and its subsidiaries ("Group") comprise the Cavalier Bremworth and Norman Ellison broadloom carpet businesses, the Ontera Modular carpet tile operation, the Elco Direct wool procurement business and the Radford Yarn Technologies operation.

All Group subsidiaries are wholly-owned except for Ontera Modular Carpets Pty Limited which is 97% owned (2013: 96.75%).

Because of the need to recognise the put options that may be granted to the non-controlling interests in respect of their shareholdings in non-wholly-owned subsidiaries as financial liabilities in the statement of financial position, the shareholdings of the non-controlling interests have been similarly derecognised in the financial statements and their interests accounted for as if the Group owned a 100% of these subsidiaries. See significant accounting policy 2 (w) below and note 19 for more detail.

The Group also has a 50% interest in commission woolscourer, Cavalier Wool Holdings Limited.

The Company is listed on the New Zealand Exchange ("NZX") and is required to comply with the provisions of the NZX Main Board Listing Rules.

The financial statements contained in this annual report were approved for issue by the Board of Directors of the Company on 22 August 2014.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with NZ IFRS, and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards ("IFRS").

(a) Basis of preparation of financial statements

The principal accounting policies adopted in the preparation of the financial statements are set out below.

These accounting policies have been consistently applied to the comparative period presented in these financial statements except where indicated.

The accounting policies have also been applied consistently by Group entities.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation of financial statements (continued)

New standards and amendments to existing standards

The following new accounting standards and amendments to existing standards came into effect during the year and were adopted in the preparation and presentation of the financial statements:

NZ IFRS 10 *Consolidated Financial Statements* (effective 1 January 2013) replaces all of the guidance on control and consolidation in NZ IAS 27 *Consolidated and Separate Financial Statements* and NZ IFRIC 12 *Consolidation – Special Purpose Entities*.

The core principle that a consolidated entity presents a parent and its subsidiaries as if they were a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both.

The Group has amended significant accounting policy 2 (b) for determining whether it has control over and, consequently, whether it consolidates its investees.

The application of this standard has had no impact on the Group's composition.

NZ IFRS 11 *Joint Arrangements* (effective 1 January 2013) is a new standard that addresses joint arrangements by distinguishing between joint operations (where the Group has rights to the assets, and obligations for the liabilities, relating to a joint arrangement) and joint ventures (where the Group has rights only to the net assets of a joint arrangement), while **NZ IFRS 12** *Disclosure of Interests in Other Entities* (effective 1 January 2013) is a new standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

As a result, the Group has extended significant accounting policy 2 (b) to capture joint ventures as well, with the Group's interests in associates and joint ventures accounted for using the equity method (equity-accounted investees).

The Group's 50% interest in CWH meets the criteria of a joint venture under NZ IFRS 11. Notwithstanding this distinction, the investment continues to be recognised using the equity method, and there has been no impact on recognised assets, liabilities and comprehensive income of the Group.

NZ IFRS 13 *Fair Value Measurement* (effective 1 January 2013) defines fair value and establishes a single NZ IFRS framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It standardises the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 *Financial Instruments: Disclosures*.

In accordance with the transitional provisions of NZ IFRS 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures.

The application of this standard has had no material impact on the Group.

Revised NZ IAS 27 *Separate Financial Statements* (effective 1 January 2013) (an amendment of the previous NZ IAS 27 *Consolidated and Separate Financial Statements*) is a standard that deals solely with separate financial statements.

The application of this standard has had no material impact on the financial statements.

Entities reporting

The financial statements include the financial statements of the Company, the consolidated financial statements of the Group (comprising Cavalier and its subsidiaries) and the Group's interest in equity-accounted investees as at, and for the year ended, 30 June 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation of financial statements (continued)

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments at fair value.

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team, led by the Chief Financial Officer, that has overall responsibility for overseeing all significant fair value measurements.

The valuation team regularly reviews significant observable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation assumptions are reported to the Audit Committee.

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.

Further information about the assumptions made in measuring fair values is included in the relevant notes to the financial statements, including in particular note 25 – financial instruments.

Significant accounting estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions 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.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 10 – measurement of the recoverable amounts of cash-generating units
- Note 10 – impairment loss in respect of indefinite life intangibles
- Note 18 – measurement of share-based payments
- Note 19 – measurement of the amounts due to non-controlling interests with put options
- Note 21 – measurement of employee benefits
- Note 23 – measurement of provisions
- Note 27 – segment reporting

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it 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.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Equity-accounted investees

The Group's interests 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 until the date on which significant influence or joint control ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. 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.

(c) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group.

The Group measures goodwill as the fair value of the consideration transferred, including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interests issued by the Group. Consideration transferred also includes the fair value of any contingent consideration and share-based awards of the acquiree that are replaced mandatorily in the business combination. If a business combination results in the termination of pre-existing relationships between the Group and the acquiree, then the lower of the termination amount, as contained in the agreement, and the value of the off-market element is deducted from the consideration transferred and recognised in other expenses.

Transactions costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees are expensed as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of a financial liability designated as a hedge of a non-monetary asset (see below).

Foreign operations

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.

Foreign currency differences are recognised in the foreign currency translation reserve ("FCTR"). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

Hedge of net investment in foreign operations

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in foreign operations are recognised directly in equity, in the FCTR, to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognised in profit or loss. When the hedged non-monetary asset is disposed of, the cumulative amount in equity is transferred to profit or loss as an adjustment to the profit or loss on disposal.

(e) Derivative financial instruments

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 FCTR is transferred to the carrying amount of the asset when it is recognised. In other cases, the amount recognised in the FCTR is transferred to profit or loss in the same period that the hedged item affects profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, trade and other payables and advances to and from subsidiaries.

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.

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.

Cash and cash equivalents used in the statement of cash flows comprises cash on hand, deposits held at call with financial institutions and bank overdrafts used for cash management purposes.

Accounting for finance income and expense is covered separately.

(g) Share capital

Incremental costs directly attributable to the issue of ordinary shares and share rights are recognised as a deduction from equity.

(h) Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. At 1 July 2006, the date of transition to NZ IFRS, the cost of plant and equipment was that recognised under previous NZ GAAP, while in the case of property, cost was determined by reference to its fair value at that date.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Property, plant and equipment (continued)

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.

(i) Goodwill

At 1 July 2006, the date of transition to NZ IFRS, goodwill represents the amount recognised under previous NZ GAAP.

Subsequent acquisitions

Goodwill arising on acquisitions of subsidiaries and equity-accounted investees represents the excess of the cost of investment over the fair value of identifiable assets, liabilities and contingent liabilities at acquisition date.

Subsequent measurement

Goodwill in respect of subsidiaries is measured at cost less accumulated impairment losses. In respect of equity-accounted investees, the goodwill is included in the carrying amount of the investment and not tested separately for impairment, but is considered as part of the assessment of the carrying value of the investment.

(j) Trademarks

The fair value of trademarks and patents acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the acquisition and ownership of the trademarks and patents.

Where there is no foreseeable limit to the period over which the trademark or patent is expected to generate cash inflows for the Group, it is accounted for as an indefinite life intangible asset and is measured at cost less accumulated impairment losses.

(k) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss when incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Leased assets

Leases in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position.

(m) Inventories

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.

(n) Impairment

Financial assets

The Group's financial assets are trade and other receivables of short duration.

Impairment losses on an individual basis are determined by an evaluation of the exposures on an instrument by instrument basis. All individual instruments that are considered significant are subject to this approach.

For trade receivables which are not significant on an individual basis, collective impairment is assessed on a portfolio basis based on number of days overdue after taking into account the historical loss experienced in portfolios with a similar amount of days overdue.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax, are reviewed at each reporting date to determine whether there is any objective evidence of impairment. If any such evidence exists, the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the income statement. 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.

The recoverable amount of an asset or 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 asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Employee benefits

Long-term benefits

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, discounted at the appropriate rate to determine its present value.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under profit-sharing plans 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.

Share-based payment transactions

The estimated fair value of rights issued to senior executives under the Cavalier Corporation Limited 2000 Executive Share Rights Plan is recognised as an expense over the minimum three-year period between the issue date of the rights and the earliest exercise date of the rights (the vesting period). At the same time, a corresponding amount is recognised as a credit to equity in the statement of changes in equity.

The estimated fair value of the rights issued is determined using the Binomial Option Pricing Model.

The market value of shares issued to the senior executives upon the exercise of the rights will be accounted for within shareholders' equity.

(p) Provisions

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.

(q) Revenue and other income

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.

Dividend income

Dividend income, inclusive of New Zealand imputation credits, is recognised in the income statement when the right to receive is established. New Zealand imputation credits are recognised in the provision for tax account as tax credits to be utilised against the tax liability arising from the gross dividend income. Exempt dividends, or tax-free distributions, are recognised when the right to receive is established.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Government grants

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will be able to comply with the conditions associated with the grants.

Grants that compensate the Group for expenses incurred are recognised in the income statement on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are initially offset against the carrying value of the underlying asset and then recognised in the income statement on a systematic basis over the useful life over which the underlying asset is depreciated.

(s) Lease payments

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 recognised as an integral part of the total lease expense, over the term of the lease.

(t) Finance expenses

Finance expenses comprise interest expense on borrowings. All borrowing costs are recognised in profit or loss using the effective interest method.

(u) Income tax expense

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 or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for the following temporary differences:

- the initial recognition of goodwill,
- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and
- differences relating to investments in subsidiaries and jointly controlled entities to the extent that they will probably not reverse in the foreseeable future.

Deferred tax 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.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(v) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise the share rights granted to key management personnel under the Cavalier Corporation Limited 2000 Executive Share Rights Plan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Non-controlling interests

Pursuant to NZ IAS 32 *Financial Instruments: Disclosure and Presentation*, the Group recognises the put options that may be granted to the non-controlling interests of non-wholly-owned subsidiaries as financial liabilities at the time of the relevant business combinations. As a consequence, the Group treats these options as if they are exercised at the acquisition date of the relevant subsidiaries. In the case of such non-wholly-owned subsidiaries that were already in existence as at 1 July 2006, when the Group transitioned to NZ IFRS, these options are treated as if they had already been exercised as at the transition date.

The impact of accounting for the put options granted to the non-controlling interests as "anticipated acquisitions" means that these non-wholly-owned subsidiaries are consolidated using percentages of interests that include the "anticipated interests" of the non-controlling interests.

The share of the profits or losses relating to these "anticipated interests" are therefore presented as relating to the shareholders of the Company rather than the legal non-controlling interests.

Future variability in the financial liabilities created, being the amounts payable to the non-controlling interests in respect of the "anticipated acquisitions", is recognised in other comprehensive income.

Future payments of dividends to the non-controlling interests which will have a direct impact on the purchase considerations otherwise payable to the non-controlling interests will be dealt with as progress payments towards the ultimate purchase considerations.

(x) Segment reporting

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 Managing Director – 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.

Segments are aggregated having regard to the requirements of NZ IFRS 8 Operating Segments, including similarities in economic characteristics and in each of the following respects:

- the nature of the products,
- the nature of the production processes,
- the type or class of customers for their products, and
- the methods used to distribute their products.

(y) Goods and Services Tax ("GST")

The income statement has been prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated net of GST, with the exception of trade receivables and payables, which include GST invoiced.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Measurement of fair values

Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

Intangible assets

The fair value of trademarks acquired in a business combination is based on capitalising and discounting the estimated royalty payments that have been avoided as a result of the trademark being owned. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale and a reasonable profit margin based on the effort required to complete and sell the inventories.

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date, except that in the case of short-term receivables, face value is a reasonable approximation of fair value.

Loans and borrowings

The fair values of loans and borrowings are calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at balance date.

Trade and other payables

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date, except that in the case of short-term payables, face value is a reasonable approximation of fair value.

Derivatives

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows using market interest rates. The fair value of forward foreign exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using market interest rates.

(aa) Investments in subsidiaries

Investments in equity securities of subsidiaries of the Company are measured at cost in the financial statements of the Company.

3. REVENUE

	Note	GROUP 2014 $000	GROUP 2013 $000	COMPANY 2014 $000	COMPANY 2013 $000
Sales of goods		**198,479**	201,739	**–**	–
Provision of management services	31	**–**	–	**1,942**	2,400
Provision of installation services		**2,163**	–	**–**	–
Total revenue		**$200,642**	$201,739	**$1,942**	$2,400

4. OTHER INCOME AND GAINS/LOSSES

	GROUP 2014 $000	GROUP 2013 $000	COMPANY 2014 $000	COMPANY 2013 $000
Rentals received	**23**	22	**–**	–
Dividends received	**2**	3	**–**	–
Net loss on sale of property, plant and equipment	**(81)**	(9)	**–**	–
Total other income and gains/(losses)	**$(56)**	$16	**–**	–

5. ADMINISTRATION EXPENSES

The following items of expenditure are included in administration expenses:

	GROUP 2014 $000	GROUP 2013 $000	COMPANY 2014 $000	COMPANY 2013 $000
Donations	**2**	5	**–**	–
Fees paid to KPMG for:				
Audit and review of financial statements	**183**	193	**15**	15
Tax services	**61**	18	**–**	–
Accounting services	**9**	–	**–**	–
Total fees paid to KPMG	**$253**	$211	**$15**	$15
Fees paid to other auditors of subsidiaries	**$24**	$12	**–**	–

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 tax compliance and transfer pricing assignments.

Accounting services related to technical accounting advice.

The Group does not use KPMG for other assurance services including internal audits and risk reviews.

6. PERSONNEL EXPENSES

	Note	GROUP 2014 $000	GROUP 2013 $000	COMPANY 2014 $000	COMPANY 2013 $000
Directors' fees	31	**288**	314	**288**	314
Wages, salaries, bonuses and holiday pay		**49,621**	50,005	**1,260**	1,392
Employee termination benefits		**136**	1,273	**–**	–
Employee benefits		**5,383**	5,446	**191**	123
Decrease in liability for retiring allowances and long service leave		**(79)**	(302)	**(36)**	(240)
Equity-settled share-based payments	18	**–**	19	**–**	19
Total personnel expenses		**$55,349**	$56,755	**$1,703**	$1,608

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. FINANCE INCOME AND EXPENSES

	Note	GROUP 2014 $000	GROUP 2013 $000	COMPANY 2014 $000	COMPANY 2013 $000
Finance income		**-**	-	**-**	-
Finance expenses		**(3,484)**	(3,740)	**-**	-
Net finance costs		**$(3,484)**	$(3,740)	**-**	-

Finance expenses represent the interest paid and payable in respect of the Group's loans and borrowings.

8. INCOME TAX

	Note	GROUP 2014 $000	GROUP 2013 $000	COMPANY 2014 $000	COMPANY 2013 $000
INCOME TAX EXPENSE/BENEFIT IN THE INCOME STATEMENT					
Current tax expense/(benefit)					
Current period		**2,276**	639	**317**	(172)
Adjustment for prior periods		**(286)**	8	**(317)**	–
		1,990	647	**–**	(172)
Deferred tax expense/(benefit)					
Origination and reversal of temporary differences		**(451)**	(1,618)	**(306)**	232
Adjustment for prior periods		**(9)**	37	**316**	–
	12	**(460)**	(1,581)	**10**	232
Income tax expense/(benefit)		**$1,530**	$(934)	**$10**	$60
RECONCILIATION OF EFFECTIVE TAX RATE					
Profit for the period		**5,790**	3,030	**30**	131
Total income tax expense/(benefit)		**1,530**	(934)	**10**	60
Profit excluding income tax		**$7,320**	$2,096	**$40**	$191
Income tax using the Company's domestic tax rate of 28% (2013: 28%)		**2,050**	587	**11**	53
Share of equity-accounted investee's tax paid profit		**(572)**	(1,404)	**–**	–
Non-deductible expenses		**165**	49	**–**	7
Tax exempt income		**–**	(241)	**–**	–
Effect of tax rate difference in foreign jurisdiction		**9**	33	**–**	–
Under/(Over) provided in prior periods		**(295)**	42	**(1)**	–
Other		**173**	–	**–**	–
Income tax expense/(benefit)		**$1,530**	$(934)	**$10**	$60

8. INCOME TAX (continued)

	Note	GROUP 2014 $000	GROUP 2013 $000	COMPANY 2014 $000	COMPANY 2013 $000
INCOME TAX RECOGNISED DIRECTLY IN EQUITY					
Derivative financial instruments		**21**	(653)	**–**	–
Income tax on income and expense recognised directly in equity	12	**$21**	$(653)	**–**	–
IMPUTATION CREDITS					
Imputation credits at 1 July		**6,613**	5,262		
New Zealand net income tax refunds		**(191)**	(145)		
Imputation credits attached to dividends received		**1**	1,496		
Imputation credits attached to dividends paid		**(1,836)**	–		
Imputation credits at 30 June		**$4,587**	$6,613		
Imputation credits available to shareholders of the Company:					
Through the Company's consolidated tax group		**3,197**	4,657		
Through subsidiaries		**1,390**	1,956		
		$4,587	$6,613		

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. PROPERTY, PLANT AND EQUIPMENT

	GROUP	
	2014 $000	2013 $000
CARRYING AMOUNTS		
Property, plant and equipment	**65,930**	71,523
Government grants deferred	**(2,030)**	(2,591)
Net carrying amount	**$63,900**	$68,932

	GROUP				
	Land and buildings $000	Plant and equipment $000	Other assets $000	Under construction $000	Total $000
COST OR DEEMED COST					
Balance at 1 July 2012	31,758	93,323	19,537	999	145,617
Additions	14	103	223	1,567	1,907
Disposals	–	(694)	(76)	(46)	(816)
Transfers	3	1,200	–	(1,203)	–
Effect of movements in exchange rates	(582)	(1,473)	(328)	(72)	(2,455)
Balance at 30 June 2013	$31,193	$92,459	$19,356	$1,245	$144,253
Balance at 1 July 2013	**31,193**	**92,459**	**19,356**	**1,245**	**144,253**
Additions	**11**	**435**	**563**	**1,485**	**2,494**
Disposals	**–**	**(1,863)**	**(915)**	**–**	**(2,778)**
Transfers	**–**	**1,111**	**190**	**(1,301)**	**–**
Effect of movements in exchange rates	**(725)**	**(1,886)**	**(418)**	**(68)**	**(3,097)**
Balance at 30 June 2014	**$30,479**	**$90,256**	**$18,776**	**$1,361**	**$140,872**
DEPRECIATION AND IMPAIRMENT LOSSES					
Balance at 1 July 2012	1,399	50,460	15,515	–	67,374
Depreciation for the year	239	5,027	1,062	–	6,328
Prior period impairment losses reversed	–	(12)	–	–	(12)
Impairment losses provided	–	572	–	–	572
Disposals	–	(613)	(71)	–	(684)
Effect of movements in exchange rates	–	(607)	(241)	–	(848)
Balance at 30 June 2013	$1,638	$54,827	$16,265	–	$72,730
Balance at 1 July 2013	**1,638**	**54,827**	**16,265**	**–**	**72,730**
Depreciation for the year	**236**	**4,741**	**872**	**–**	**5,849**
Prior period impairment losses reversed	**–**	**(620)**	**–**	**–**	**(620)**
Disposals	**–**	**(1,099)**	**(736)**	**–**	**(1,835)**
Effect of movements in exchange rates	**–**	**(865)**	**(317)**	**–**	**(1,182)**
Balance at 30 June 2014	**$1,874**	**$56,984**	**$16,084**	**–**	**$74,942**
CARRYING AMOUNTS					
At 30 June 2013	$29,555	$37,632	$3,091	$1,245	$71,523
At 30 June 2014	**$28,605**	**$33,272**	**$2,692**	**$1,361**	**$65,930**

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

9. PROPERTY, PLANT AND EQUIPMENT (continued)

Impairment loss

No impairment losses in respect of property, plant and equipment were recognised during the year (2013: $572,000). Prior period impairment losses of $620,000 were reversed (2013: $12,000).

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 20).

Property, plant and equipment under construction

The Group had various projects that were work in progress at balance date. These projects related to plant and equipment for its manufacturing operations.

Because of the short time taken to complete these projects, no interest was capitalised during the year (2013: Nil).

Change in classification

Except as disclosed in this note, there have been no changes in the classification of property, plant and equipment during the year.

Government grants deferred

Government grants received and deferred under the Strategic Investment Programme in Australia in relation to plant and equipment have been presented in the statement of financial position as a deduction from the carrying amount of property, plant and equipment.

These grants are recognised in the income statement over the 10-year useful life of the underlying plant and equipment.

The details relating to these Government grants deferred are disclosed below:

	GROUP	
	2014 $000	2013 $000
Balance at 1 July	**2,591**	3,163
Released to income	**(321)**	(351)
Effect of movements in exchange rates	**(240)**	(221)
Balance at 30 June	**$2,030**	$2,591

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. INTANGIBLE ASSETS

	GROUP		
	Goodwill $000	Trademarks $000	Total $000
COST			
Balance at 1 July 2012	6,067	2,192	8,259
Balance at 30 June 2013	$6,067	$2,192	$8,259
Balance at 1 July 2013	**6,067**	**2,192**	**8,259**
Balance at 30 June 2014	**$6,067**	**$2,192**	**$8,259**
AMORTISATION AND IMPAIRMENT LOSSES			
Balance at 1 July 2012	–	757	757
Amortisation for the year	–	–	–
Reversal of prior period impairment losses	–	(292)	(292)
Impairment loss	–	–	–
Balance at 30 June 2013	–	$465	$465
Balance at 1 July 2013	**–**	**465**	**465**
Amortisation for the year	**–**	**–**	**–**
Reversal of prior period impairment losses	**–**	**–**	**–**
Impairment loss	**–**	**–**	**–**
Balance at 30 June 2014	**–**	**$465**	**$465**
CARRYING AMOUNTS			
At 30 June 2013	$6,067	$1,727	$7,794
At 30 June 2014	**$6,067**	**$1,727**	**$7,794**

Goodwill recognised on acquisition of subsidiary

The goodwill recognised on acquisition of subsidiary can be attributable mainly to:

- the value of the intellectual property and "know-how" relating to the skills and technical talent of the management and employees who transferred to the Group as part of the acquisition;
- the value of the distribution networks and other business relationships that existed with customers and suppliers at effective date; and
- the value of the synergistic gains that are expected to be achieved from integrating the acquiree into the Group's existing businesses.

Trademarks recognised on acquisition of subsidiary

Trademarks which form a part of the assets acquired are regarded as "identifiable intangible assets" where they are separable and have been legally registered and transferred to the Group to give the Group the contractual rights to these trademarks.

Where, based on an analysis of all the relevant factors (including the established nature of these brands, their strategic importance to the operation and the continuing management commitment to the current brand direction), it has been established that there is no foreseeable limit to the period over which these assets are expected to generate cash inflows for the Group, they are dealt with as "indefinite life intangibles".

10. INTANGIBLE ASSETS (continued)

Impairment testing for cash-generating units containing goodwill and indefinite life intangibles

For the purpose of impairment testing, goodwill and indefinite life intangible assets are allocated to the Group's operating divisions which represent the lowest level within the Group at which the goodwill and indefinite life intangibles are monitored for internal management purposes.

The allocation of the goodwill and indefinite life intangible assets to the cash-generating units is as follows:

	GROUP		
	Goodwill $000	Trademarks $000	Total $000
CARRYING AMOUNTS			
Balance at 30 June 2013			
Norman Ellison Carpets	2,043	1,727	3,770
Ontera Modular Carpets	1,662	–	1,662
Radford Yarn Technologies	2,362	–	2,362
Balance at 30 June 2013	$6,067	$1,727	$7,794
Balance at 30 June 2014			
Norman Ellison Carpets	**2,043**	**1,727**	**3,770**
Ontera Modular Carpets	**1,662**	**–**	**1,662**
Radford Yarn Technologies	**2,362**	**–**	**2,362**
Balance at 30 June 2014	**$6,067**	**$1,727**	**$7,794**

In determining recoverable amount for establishing whether there has been any impairment of goodwill and indefinite life intangibles allocated to the cash-generating units, the Group used their value in use.

Goodwill

In the case of goodwill, value in use was determined by discounting future cash flows generated from the continuing use of each of these entities and was based on the following key assumptions:

- Cash flows were projected based on actual operating results for the latest financial year just finished and the budgeted operating results for the ensuing year. Cash flows for a further four year period were extrapolated based on management's assessment of the relevant future operating environments, both from a competitive and a regulatory perspective.
- Capital expenditures in excess of, or below, depreciation charge, after having regard to management's assessment of the capital expenditure requirements of these units.
- A 2% growth in earnings in years six and beyond.
- The New Zealand corporate tax rate of 28% for the 2013/14 financial year and thereafter.
- Post-tax discount rate of 13% (2013: 13%). This discount rate was estimated based on a pre-tax risk-free rate of 5%, a post-tax market risk premium of 7.5%, a possible range of debt leveraging of around 50% and an Alpha factor of 2%.

The values assigned to the key assumptions represent management's assessment of future trends in the respective business environments in which the cash-generating units operate and are based on both historical and projected data from both internal and external sources.

While the above estimates of recoverable amount are particularly sensitive to the discount rate used (for example, an increase of 1 percentage point in the discount rate used would have the effect of reducing the recoverable amount by $3,536,000 in the case of Norman Ellison Carpets Limited), there is significant headroom between the recoverable amount and the carrying value of the cash-generating units to avoid goodwill impairment.

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. INTANGIBLE ASSETS (continued)

Indefinite life intangibles

Value in use was established using the relief of royalty methodology where the Group's approach was to determine a notional expected royalty stream based on the underlying anticipated gross profits attributable to each trademark and to then capitalise this expected royalty stream based on the EBITDA multiple implied in the original sale and purchase agreements.

There was no change in the carrying value of the Norman Ellison Carpets trademark during the year (2013: $292,000 write-up to reflect the enhanced value in use).

11. EQUITY-ACCOUNTED INVESTEE

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

	GROUP	
	2014 $000	2013 $000
Balance at 1 July	**23,856**	22,593
Share of tax-paid profit	**2,044**	5,013
Dividends received	**–**	(3,750)
Balance at 30 June	**$25,900**	$23,856
Amount of goodwill in carrying value of equity-accounted investee:		
Balance at 1 July	**–**	–
Balance at 30 June	**–**	–

11. EQUITY-ACCOUNTED INVESTEE (continued)

Summary financial information for equity-accounted investee, unadjusted for the percentage ownership held by the Group, follows:

	GROUP							
	Percentage ownership interest	Current assets $000	Non-current assets $000	Total assets $000	Current liabilities $000	Non-current liabilities $000	Total liabilities $000	Net assets $000
2014 Cavalier Wool Holdings Limited – as at 30 June 2014	**50%**	**$7,602**	**$61,670**	**$69,272**	**$15,026**	**$3,794**	**$18,820**	**$50,452**
2013 Cavalier Wool Holdings Limited – as at 30 June 2013	50%	$9,597	$62,156	$71,753	$4,797	$21,276	$26,073	$45,680

	GROUP							
	Percentage ownership interest	Revenues $000	Depreciation and amortisation $000	Interest expense $000	Other items $000	Profit before tax $000	Income tax expense	Profit after tax $000
2014 Cavalier Wool Holdings Limited – year ended 30 June 2014	**50%**	**$33,319**	**$(2,902)**	**$(1,017)**	**$(23,652)**	**$5,748**	**$(1,660)**	**$4,088**
2013 Cavalier Wool Holdings Limited – year ended 30 June 2013	50%	$44,354	$(2,771)	$(1,365)	$(26,195)	$14,023	$(3,997)	$10,026

Cavalier Wool Holdings Limited (CWH) is the only joint arrangement in which the Group has an interest.

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.

CWH is structured as a separate vehicle and the Group has a residual interest in the net assets of CWH. As a consequence, the Group has classified its interest in CWH as a joint venture.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. EQUITY-ACCOUNTED INVESTEE (continued)

The Group did not provide CWH with management services during the year (2013: fee totaling $72,000 for management services performed).

The Group did not receive any dividends from CWH during the year (2013: $3,750,000). The Group notes that the dividend policy of CWH is to maximise dividend payments and on optimal terms to the shareholders provided that such payments are consistent with good business practice, the solvency and financial position of the company, the funding requirements of the company and comply with the law generally and, in particular, the responsibilities and duties of the directors.

The value of wool scouring services contracted directly with CWH during the year was $832,000 (2013: $559,000).

At balance date, the Group owed CWH $69,000 (inclusive of GST) in respect of invoices for wool scouring services provided in June 2014, but which were not due for payment at balance date (2013: $50,000). CWH owed the Group $47,000 (inclusive of GST) being rebates in respect of scouring services and wool storage provided in June 2014 (2013: $91,000) at balance date. All these amounts were paid in full after balance date.

12. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	GROUP					
	Assets		Liabilities		Net	
	2014 $000	2013 $000	**2014 $000**	2013 $000	**2014 $000**	2013 $000
Property, plant and equipment	**–**	923	**(3,723)**	(5,161)	**(3,723)**	(4,238)
Derivatives	**83**	–	**–**	(32)	**83**	(32)
Inventories	**1,038**	1,018	**–**	(12)	**1,038**	1,006
Loans and borrowings	**–**	110	**–**	–	**–**	110
Employee benefits	**2,031**	1,403	**–**	–	**2,031**	1,403
Provisions	**2,002**	3,142	**–**	–	**2,002**	3,142
Tax loss carry-forwards	**1,676**	1,490	**–**	–	**1,676**	1,490
Other items	**–**	43	**–**	(127)	**–**	(84)
Net tax assets/(liabilities)	**$6,830**	$8,129	**$(3,723)**	$(5,332)	**$3,107**	$2,797

	COMPANY					
	Assets		Liabilities		Net	
	2014 $000	2013 $000	**2014 $000**	2013 $000	**2014 $000**	2013 $000
Employee benefits	**126**	136	**–**	–	**126**	136
Provisions	**30**	30	**–**	–	**30**	30
Net tax assets/(liabilities)	**$156**	$166	**–**	–	**$156**	$166

Subject only to continuity of shareholding rules, the tax loss carry-forwards do not expire under current tax legislation. These tax loss carry-forwards have been recognised as deferred tax assets because it is probable, based on the budgets that have been prepared for the ensuing year, that future taxable profit will be available against which the Group can utilise the benefits therefrom.

12. DEFERRED TAX ASSETS AND LIABILITIES (continued)

Movement in temporary differences during the year:

	GROUP								
	Balance 1 July 2012 $000	Recognised in profit or loss $000	Recognised in equity $000	Effect of exchange rate change $000	**Balance 30 June 2013 $000**	**Recognised in profit or loss $000**	**Recognised in equity $000**	**Effect of exchange rate change $000**	**Balance 30 June 2014 $000**
Property, plant and equipment	(4,624)	462	–	(76)	**(4,238)**	**596**	**–**	**(81)**	**(3,723)**
Derivatives	12	610	(653)	(1)	**(32)**	**96**	**21**	**(2)**	**83**
Inventories	1,482	(469)	–	(7)	**1,006**	**39**	**–**	**(7)**	**1,038**
Loans and borrowings	42	68	–	–	**110**	**(110)**	**–**	**–**	**–**
Employee benefits	1,633	(178)	–	(52)	**1,403**	**703**	**–**	**(75)**	**2,031**
Provisions	2,705	442	–	(5)	**3,142**	**(1,134)**	**–**	**(6)**	**2,002**
Tax loss carry-forwards	983	507	–	–	**1,490**	**186**	**–**	**–**	**1,676**
Other items	(235)	139	–	12	**(84)**	**84**	**–**	**–**	**–**
Total	$1,998	$1,581	$(653)	$(129)	**$2,797**	**$460**	**$21**	**$(171)**	**$3,107**

	COMPANY							
	Balance 1 July 2012 $000	Recognised in profit or loss $000	Recognised in equity $000	Transfer $000	**Balance 30 June 2013 $000**	**Recognised in profit or loss $000**	**Recognised in equity $000**	**Balance 30 June 2014 $000**
Employee benefits	466	(166)	–	(164)	**136**	**(10)**	**–**	**126**
Provisions	153	(66)	–	(57)	**30**	**–**	**–**	**30**
Total	$619	$(232)	–	$(221)	**$166**	**$(10)**	**–**	**$156**

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. CASH AND CASH EQUIVALENTS

	GROUP		COMPANY	
	2014 $000	2013 $000	2014 $000	2013 $000
Cash and cash equivalents at bank	**2,375**	5,932	**2**	3
Bank overdrafts used for cash management purposes	**–**	(234)	**–**	–
Cash and cash equivalents in the statement of cash flows	**$2,375**	$5,698	**$2**	$3

14. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	GROUP 2014 $000	GROUP 2013 $000	COMPANY 2014 $000	COMPANY 2013 $000
Trade receivables due from trade customers	**24,905**	25,652	**–**	–
Other receivables	**158**	1,424	**–**	–
Prepayments	**847**	574	**–**	–
	$25,910	$27,650	**–**	–

See note 25 with respect to the impairment of trade and other receivables.

15. INVENTORIES

	GROUP	
	2014 $000	2013 $000
Raw materials and consumables	**28,135**	22,115
Work in progress	**2,531**	1,522
Finished goods	**36,181**	33,328
	$66,847	$56,965
Inventories stated at net realisable value	**$2,218**	$2,367
Carrying amount of inventories subject to retention of title clauses	**$1,306**	$1,126

In 2014, the net realisable value provision in respect of inventories decreased by $210,000 (2013: increased by $447,000). The decrease/increase in this provision is included in cost of sales.

16. EARNINGS PER SHARE

Basic and diluted earnings per share

	GROUP	
	2014 Cents	2013 Cents
Basic earnings per share	**8.5**	4.4
Diluted earnings per share	**8.5**	4.4

16. EARNINGS PER SHARE (continued)

Basic earnings per share

The calculation of basic earnings per share at 30 June 2014 is based on the profit attributable to ordinary shareholders of $5,790,000 (2014: $3,030,000) and a weighted average number of ordinary shares outstanding of 68,462,919 (2013: 68,263,857), calculated as follows:

Profit attributable to ordinary shareholders (basic)

	GROUP	
	2014 $000	2013 $000
Profit after tax for the year	**5,790**	3,030
Profit attributable to non-controlling interests	**–**	–
Profit attributable to ordinary shareholders	**$5,790**	$3,030

Weighted average number of ordinary shares (basic)

	COMPANY	
	2014 000	2013 000
Issued ordinary shares at 1 July	**68,263.9**	68,263.9
Effect of shares issued during the year	**199.0**	–
Weighted average number of ordinary shares at 30 June	**68,462.9**	68,263.9

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2014 is based on the profit attributable to ordinary shareholders of $5,790,000 (2013: $3,030,000) and a weighted average number of ordinary shares outstanding, after adjustment for the effects of all dilutive potential ordinary shares, of 68,462,919 (2013: 68,263,857), calculated as follows:

Profit attributable to ordinary shareholders (diluted)

	GROUP	
	2014 $000	2013 $000
Profit after tax for the year	**5,790**	3,030
Profit attributable to non-controlling interests	**–**	–
Profit attributable to ordinary shareholders	**$5,790**	$3,030

Weighted average number of ordinary shares (diluted)

	COMPANY	
	2014 000	2013 000
Issued ordinary shares at 1 July	**68,263.9**	68,263.9
Effect of shares issued during the year	**199.0**	–
Weighted average number of ordinary shares (diluted) at 30 June	**68,462.9**	68,263.9

Based on the estimated adjusted base prices set out in the table in note 18 on the Cavalier Corporation Limited 2000 Executive Share Rights Plan, and assuming that the market price of the Company's shares at 30 June 2014 of $1.33 per share remains unchanged going forward, all the share rights will have no value to the key management personnel involved because the market price would be less than these adjusted base prices.

As a consequence, these share rights do not constitute dilutive potential ordinary shares at balance date.

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. CAPITAL AND RESERVES

Share capital

	COMPANY 2014 000	COMPANY 2013 000
Ordinary shares		
Number on issue at 1 July	**68,263.9**	68,263.9
Shares issued during the year	**415.2**	–
Number on issue at 30 June	**68,679.1**	68,263.9

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.

The Company has also issued share rights pursuant to the Cavalier Corporation Limited 2000 Executive Share Rights Plan ("the Plan") to the Managing Director and selected key management personnel of the Company. Further details on the Plan can be found in note 18.

Dividends

The Company previously paid dividends to the holders of its ordinary shares three times a year, but this was changed to two during the year in line with common practice among companies on the NZX.

The total dividends declared and paid during the year are summarised in the tables below:

	2014 Cents per share	2013 Cents per share
Previous year's fully imputed final dividend paid in October	**4.0**	–
Current year's fully imputed interim dividend paid in March	**3.0**	–
Total paid for the year	**7.0**	–

	2014 $000	2013 $000
Previous year's fully imputed final dividend paid in October	**2,731**	–
Current year's fully imputed interim dividend paid in March	**2,054**	–
Total paid for the year	**$4,785**	–

The Directors have decided that no final dividend will be payable in respect of the current year ended 30 June 2014 (2013: 4 cents per share).

Cash flow hedging reserve

The hedging reserve comprises 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 translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

Share rights reserve

The estimated fair value of rights issued to key management personnel under the Cavalier Corporation Limited 2000 Executive Share Rights Plan is recognised as an expense over the minimum three-year period between the issue date of the rights and the earliest exercise date, and therefore vesting date, of the rights. At the same time, a corresponding amount is recognised as a credit to the share rights reserve in equity.

The estimated fair value of the rights issued is determined using the Binomial Option Pricing Model.

The market value of shares issued to the key management personnel upon the exercise of the rights are accounted for within shareholders' equity.

18. EXECUTIVE SHARE RIGHTS PLAN

In 2000, the Company established the Cavalier Corporation Limited 2000 Executive Share Rights Plan ("the Plan") pursuant to which executive directors of the Company and selected key management personnel of the Group can be issued shares in the Company depending on the extent to which they are able to generate super-normal returns for the Group.

The Plan seeks to align the interests of the executive directors and the selected key management personnel with those of shareholders by having an element of senior executives' total remuneration linked to the returns enjoyed by shareholders, thereby providing the executives with the incentive to increase value for shareholders. At the same time, because the rights are not exercisable for at least three years, it also enables the Group to retain the loyalty, experience and continuing performance of these senior executives. The rights expire on the earlier of the rights holder ceasing full time employment, unless the Board of Directors determines otherwise, or the date six years from issue date.

The rights holders' rewards under the Plan will be determined on the exercise date by multiplying the difference between the market price of the Company's shares and the adjusted base price at that date by the number of rights exercised at that date. Unless the market price of the Company's shares at the exercise date exceeds the adjusted base price, the rights confer no rewards and the rights are, in fact, not available for exercise. The rewards at exercise date are then divided by the market price of the Company's shares at that date to give the number of shares to be issued to the holders, subject to a maximum of one share for every 1.8 rights exercised.

The adjusted base price is the market price of the Company's shares at issue date plus an escalation factor, being the Company's tax-paid cost of equity capital between issue date and exercise date, and then adjusted downwards for dividends paid between these two dates.

For the purposes of calculating the adjusted base price and the rights holders' rewards, the market price of the Company's shares at issue date and the market price of the Company's shares at exercise date are the volume weighted average market price of the Company's shares in the 10 trading days leading up to the issue date and the exercise date respectively.

The following table, which is based on the tranche of 835,000 share rights that were issued on 13 October 2009, sets out the rights holders' theoretical rewards under various market price scenarios in October 2014, the earliest exercise date of these rights after balance date, and the impact on the number of shares that would have to be issued and the consequent dilutive effect of these shares:

	Scenario 1	Scenario 2	Scenario 3[1]
Market price (A) at exercise date	$3.587 or less	$4.587	$8.071
Estimated adjusted base price (B) at exercise date	$3.587	$3.587	$3.587
Rights holders' rewards (being (A–B) x 835,000 of the 13 October 2009 share rights outstanding at balance date)	Nil	$835,000	$3,744,140
Number of shares to be issued (being rights holders' rewards divided by market price), subject to maximum of one share for every 1.8 rights or 463,889 shares	Nil	182,036	463,889
Dilution effect (maximum 0.68%, when market price reaches $8.071 at exercise date)	Nil	0.27%	0.68%

[1] Market price at which the maximum number of shares are issued and maximum dilution is reached.

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. EXECUTIVE SHARE RIGHTS PLAN (continued)

Pursuant to the terms of the Plan, the Company issued a number of tranches of rights over the years, and the following is a summary of the rights that have been issued, but have not expired or been exercised, as at 30 June:

	COMPANY 2014 000	COMPANY 2013 000
Share rights on issue at 1 July	**2,520**	3,340
Share rights issued during the year	**–**	–
Share rights expired during the year	**(840)**	(820)
Share rights forfeited during the year	**–**	–
Share rights exercised during the year	**–**	–
Share rights on issue at 30 June	**1,680**	2,520

The earliest dates on which these share rights fall due for exercise and their respective expiry dates are as follows:

Earliest exercise date	**Expiry date**	2014	2013
October 2010	October 2013	**–**	840
November 2011	November 2014	**845**	845
October 2012	October 2015	**835**	835
		1,680	2,520

The number of share rights that can be issued under the Plan must be pre-approved by shareholders at Annual Meetings. The last time such approval was given by shareholders was in November 2006, when shareholders approved at the Annual Meeting that year the issue of up to 3,500,000 share rights over the three years from November 2006 to November 2009. 3,490,000 share rights were issued pursuant to that approval as set out in the table below and no further issue of share rights are allowed without further approval from shareholders.

Issue date	000
November 2006	870
November 2007	890
November 2008	895
October 2009	835
Total issued	3,490
Lapsed	10
Total approved	3,500

18. EXECUTIVE SHARE RIGHTS PLAN (continued)

Based on the market prices of the Company's shares at the various issue dates of the rights, an estimated tax-paid cost of equity capital for the Company of 11% and assuming 2014/15 interim dividend unchanged on the previous year in respect of the October 2009 share rights, the Company estimates the adjusted base price to be as follows:

	Market price at issue date[1]	Next exercisable anniversary of the original issue date	Estimated adjusted base price at next exercisable anniversary of the original issue date	Expiry date	Estimated adjusted base price at expiry date
Issue date					
28 November 2008	$2.09	November 2014	$3.03	November 2014	$3.03
13 October 2009	$2.57	October 2014	$3.59	October 2015	$3.95

On the basis of the various estimated adjusted base prices set out in the table above and assuming that the market price of the Company's shares at 30 June 2014 of $1.33 per share remains unchanged, all the share rights will have no value to the key management personnel involved because the market price would be less than these adjusted base prices.

The rights do not confer the same rights as shares and merely holding rights does not entitle the rights holders to:

- receive any dividends paid,
- attend or vote at any meeting of the shareholders, or
- exercise any other rights which shareholders are entitled to exercise.

The rights holders are precluded from dealing with some of the shares that may be issued to them under the Plan in the first two years following their issue.

The estimated fair value of rights issued to senior executives under the Plan is recognised as an expense over the minimum three-year period between the issue date of the rights and the earliest exercise date of the rights. At the same time, a corresponding amount is recognised as a credit to equity in the statement of changes in equity. No amount was recognised as an expense during the year (2013: $19,000).

The Group has measured the fair value of the services received from the key management personnel by reference to the estimated fair value of the share rights. The estimated fair value of these rights has been determined using the Binomial Option Pricing Model ("BOPM").

The issues of share rights where the estimated fair values at their issue dates have not been fully recognised as an expense over the minimum three-year period between the issue dates of the rights and their earliest exercise dates at balance date are summarised below together with the inputs to the BOPM:

[1] Pursuant to the terms of the Plan, the market price at issue date is the weighted average selling price per share of all shares in the Company traded on the New Zealand Exchange during the 10 trading days prior to the issue date, adjusted, as the Board may determine in its sole discretion, to take account of the shares going ex-dividend in that period and to ensure that such weighted average does not take into account any purchase or sale of shares by or on behalf of the executives.

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. EXECUTIVE SHARE RIGHTS PLAN (continued)

	Market price at issue date	Tax-paid cost of equity	Expected share price volatility	Vesting period	Expected life	Expected dividends (per annum)	Risk-free interest rate	Value of rights at issue date	Value of rights expensed in previous years	Value of rights to be expensed in current year	Amount recognised as expense
Year ended 30 June 2014											
13 October 2009 share rights	**$2.60**	**11%**	**30.0%**	**Three years from issue**	**Three years from vesting**	**18.0 cents**	**4.56% to 4.82%**	**24.0 cents**	**24.0 cents**	**Nil**	**Nil**
Year ended 30 June 2013											
13 October 2009 share rights	$2.60	11%	30.0%	Three years from issue	Three years from vesting	18.0 cents	4.56% to 4.82%	24.0 cents	21.7 cents	2.3 cents	$19,000

As the volatility applied in the BOPM should be based on the term of the share rights, an analysis of the Company's weekly dividend-adjusted share price volatility over the periods of three, four, five and six years prior to issue dates were performed to derive an expected average share price volatility. It is noted that the value of the rights per the model for the valuation of the 13 October 2009 share rights issue ("the 2009 share rights") would increase by approximately 3.0 cents with an increase in the volatility from 30% to 32.5%. Conversely, the value of the 2009 share rights would decrease by approximately 3.0 cents with a decrease in the volatility from 30% to 27.5%.

One of the other factors used in the BOPM is the expected life rather than the maximum contract life (that is, six years in this instance) to reflect the impact of early exercise behaviour. Given past experience with the exercise behaviour of the key management personnel, the Group believes that the expected life is likely to be somewhere between three years and six years. The Group notes that while it has assumed that the expected life would be somewhere between four to five years, the value per the model for the valuation of the 2009 share rights would decrease by only 1.9 cents (from 23.7 cents to 21.8 cents) if the expected life was decreased from four to five years to three years, so it is not particularly sensitive to this variable.

For the purposes of calculating the estimated fair value of the rights, the Group has assumed a nil dividend growth rate and notes that in respect of the valuation of the 2009 share rights, factoring a 3% dividend growth rate into the model would reduce the valuation by around 0.6 cent per right only.

Based on history, the Group also notes that the likelihood of the share rights lapsing prior to vesting date is very low and no adjustment has therefore been made for this particular factor.

NZ IFRS 2 Share-based Payment specifically precludes application of a discount for trading restrictions during the vesting period. While a discount would be permitted for trading restrictions post vesting, they have a negligible effect on the value of the rights. No adjustments have also been made for the limit on the number of shares which may be issued to the key management personnel due to the significant headroom currently available and the Group does not believe that this restriction is likely to have a material effect on the value of the share rights.

19. NON-CONTROLLING INTERESTS

Ontera Modular Carpets Pty Limited and subsidiary ("Ontera")

The Group had a 97% interest in Ontera at balance date (2013: 96.75%).

Pursuant to the Ontera shareholders' agreement, the Group granted, in favour of non-controlling interests, put options that give them the right to sell their respective shareholdings to the Group. The price at which these shareholdings can be sold is based on capitalising the latest earnings of Ontera at a pre-agreed earnings multiple and then adjusting this downwards for net interest-bearing debt.

In return for granting these put options, the Group has been granted call options which give the right to buy the non-controlling interests out of Ontera.

Pursuant to NZ IAS 32 *Financial Instruments: Disclosure and Presentation*, the Group recognises the put options, which impose upon the Group the unavoidable obligations to purchase the remaining shares in Ontera, as financial liabilities.

As a consequence, and because these put options were granted as part of a business combination, the Group has accounted for these put options as follows:

The Group applied the restatement exemption in NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* in respect of the Ontera acquisition, being a business combination that took place before the transition date of 1 July 2006. However, because the Group's accounting of these put options is based on the assumption that they had already been exercised and the non-controlling interests had already been acquired, the Group recognised, on transition date, a financial liability as a contingent purchase consideration and derecognised the relevant non-controlling interests at the same time.

The difference arising from the recognition of the contingent purchase consideration and derecognition of the non-controlling interests was adjusted through goodwill.

Impact of the accounting treatment

The impact of accounting for the put options granted to non-controlling interests of non-wholly-owned subsidiaries as "anticipated acquisitions" implies consolidating these subsidiaries using percentages of interests that include the "anticipated interests".

This means that the share of the profits or losses relating to these "anticipated interests" are presented as relating to the shareholders of the Company rather than the legal non-controlling interests.

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. NON-CONTROLLING INTERESTS (continued)

Future variability in financial liabilities created

Future variability in the financial liabilities created (effectively the purchase consideration) is recognised in other comprehensive income.

Future payments of dividends to non-controlling interests

Future payments of dividends to non-controlling interests which will have a direct impact on the purchase considerations otherwise payable to the non-controlling interests will be dealt with as progress payments towards the ultimate purchase considerations.

Presentation of financial liabilities created

The financial liabilities recognised in respect of non-controlling interests are disclosed as other payables in the statement of financial position and a breakdown of these into the individual amounts are set out below:

	GROUP	
	2014 $000	2013 $000
Total amount payable to non-controlling interests at 1 July	**210**	1,060
Amounts paid to non-controlling interests on acquisition of their shares	**(13)**	(530)
Adjustment to amount payable to non-controlling interests	**(132)**	(320)
Total amount payable to non-controlling interests at 30 June	**$65**	$210
Non-current	**–**	–
Current	**65**	210
Total amount payable to non-controlling interests at 30 June	**$65**	$210

20. 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 and foreign currency risks, see note 25.

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

The Group's funding facilities with the Bank were amended and extended during the year.

The Group had total bank funding facilities of $76,462,000 at balance date, and the details of these facilities and their utilisation at that date (excluding overdraft facilities of $4,265,000) can be analysed as follows:

	GROUP		
	Facilities (excluding overdraft) $000	Facilities utilised at balance date $000	Facilities unutilised at balance date $000
Facilities due for review:			
after 2 years but within 3 years	**20,000**	**7,235**	**12,765**
after 1 year but within 2 years	**56,462**	**53,985**	**2,477**
Total	**$76,462**	**$61,220**	**$15,242**

	GROUP		
		Facilities due for review	
	Facilities (excluding overdraft) $000	After 1 year but within 2 years $000	After 2 years but within 3 years $000
Secured bank facilities (denominated in NZD)	**70,000**	**50,000**	**20,000**
Secured bank facilities (denominated in AUD)	**6,462**	**6,462**	**–**
Total secured bank facilities	**$76,462**	**$56,462**	**$20,000**

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

	GROUP					
	Nominal interest rate 2014 %	Face value 2014 $000	Carrying amount 2014 $000	Nominal interest rate 2013 %	Face value 2013 $000	Carrying amount 2013 $000
Secured bank loans (denominated in NZD)	**5.9**	**57,235**	**57,235**	5.3	54,500	54,500
Secured bank loans (denominated in AUD)	**4.7**	**3,985**	**3,985**	5.1	4,396	4,396
Total secured bank loans		**$61,220**	**$61,220**		$58,896	$58,896
Non-current		**61,220**	**61,220**		58,896	58,896
Current		**–**	**–**		–	–
Total secured bank loans		**$61,220**	**$61,220**		$58,896	$58,896

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. LOANS AND BORROWINGS (continued)

The Group had no other borrowings at balance date (2013: Unsecured borrowings from related parties of $86,000 (see note 31)).

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 with a carrying amount of $22,800,000 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 (see note 9).

The Company had no loans and borrowings at 30 June 2014 (2013: Nil).

21. EMPLOYEE BENEFITS

	GROUP		COMPANY	
	2014 $000	2013 $000	**2014 $000**	2013 $000
Liability for retiring allowances	**735**	991	**395**	457
Liability for long service leave	**1,509**	1,453	**56**	29
Total employee benefits	**$2,244**	$2,444	**$451**	$486

In assessing the Group's liabilities for retiring allowances and long service leave, 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.

The Group does not have, and does not make any contributions to, any defined benefit plans that provide pension and/or medical benefits for employees upon retirement.

22. DEFERRED INCOME

Details of operating lease incentives granted at the commencement, or during the term, of these leases that are yet to be released to income are as follows:

	GROUP	
	2014 $000	2013 $000
Balance as at 1 July	**359**	434
Released to income	**(74)**	(75)
Balance as at 30 June	**$285**	$359
Non-current	**218**	291
Current	**67**	68
Balance as at 30 June	**$285**	$359

23. PROVISIONS

	GROUP			
	Insurances $000	Restructuring $000	Warranties $000	Total $000
Balance at 1 July 2012	210	5,707	1,095	7,012
Amounts provided during the year	–	5,275	–	5,275
Amounts incurred during the year	–	(3,113)	–	(3,113)
Released to profit or loss during the year	–	(1,099)	(429)	(1,528)
Effect of movements in exchange rates	–	–	(4)	(4)
Balance at 30 June 2013	$210	$6,770	$662	$7,642
Non-current	210	4,016	–	4,226
Current	–	2,754	662	3,416
Balance at 30 June 2013	$210	$6,770	$662	$7,642
Balance at 1 July 2013	**210**	**6,770**	**662**	**7,642**
Amounts provided during the year	**–**	**–**	**723**	**723**
Amounts incurred during the year	**–**	**(2,166)**	**(522)**	**(2,688)**
Released to profit or loss during the year	**–**	**–**	**–**	**–**
Effect of movements in exchange rates	**–**	**–**	**(4)**	**(4)**
Balance at 30 June 2014	**$210**	**$4,604**	**$859**	**$5,673**
Non-current	**210**	**3,691**	**–**	**3,901**
Current	**–**	**913**	**859**	**1,772**
Balance at 30 June 2014	**$210**	**$4,604**	**$859**	**$5,673**

The determination of provisions requires management to make judgements, estimates and assumptions that affect the reported amounts and actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis (see note 2).

Insurances

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

Restructuring

The Group did not undertake any business restructuring during the year.

During the previous financial year and as a consequence of further business improvement plans to continue to improve the level of efficiencies and to reposition the broadloom carpet business in terms of cost base, capacity, structure, product portfolio, channels and markets, the Group committed, before balance date, to consolidate its tufting operations at its main site in Papatoetoe in Auckland.

The Group recognised in respect of this initiative a provision of $5,275,000 (with $2,110,000 expected to be incurred within 12 months of balance date) for expected restructuring costs, including employee termination benefits, employee support costs, the costs to relocate plant and equipment to the Papatoetoe site and contract termination costs.

$2,166,000 of this provision was incurred during the current year.

Warranties

The provision for warranties relates mainly to carpet sold during the years ended 30 June 2014 and 2013. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

24. TRADE CREDITORS AND ACCRUALS

	GROUP		COMPANY	
	2014 $000	2013 $000	**2014 $000**	2013 $000
Trade payables due to external parties	**24,715**	24,247	**–**	–
Accrued expenses	**2,543**	2,034	**67**	67
	$27,258	$26,281	**$67**	$67

25. FINANCIAL INSTRUMENTS

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. A financial risk management committee, composed of senior management, provides oversight for risk management and derivative activities. This committee determines the Group's financial risk policies and objectives, and provides guidelines for derivative instrument utilisation. This committee also establishes procedures for control and valuation, risk analysis, counterparty credit approval, and ongoing monitoring and reporting.

The Group is not exposed to substantial other market price risk arising from financial instruments.

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.

25. 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 ensures that there is sufficient capacity within its overall funding facilities to enable it to draw on for one-off capital projects or acquisitions should these opportunities arise from time to time.

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.

The currencies in which transactions are primarily denominated are 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 regular basis.

Other than the monetary assets and liabilities in respect of trade-related transactions, the Group's only other monetary liability held in currencies other than New Zealand dollars was an Australian denominated loan.

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 40% of the Group's core loans and borrowings without the prior approval of the Board having first been obtained.

NOTES TO THE FINANCIAL STATEMENTS (continued)

25. 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:

	GROUP	
	2014 $000	2013 $000
New Zealand	**10,506**	10,817
Australia	**13,205**	14,979
Other regions	**1,352**	1,280
Trade and other receivables	**$25,063**	$27,076

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

	GROUP			
	Gross receivable 2014 $000	**Impairment 2014 $000**	Gross receivable 2013 $000	Impairment 2013 $000
Not past due	**18,661**	**–**	19,011	–
Past due 0 – 30 days	**4,628**	**–**	6,247	–
Past due 31 – 120 days	**1,750**	**(59)**	1,864	(46)
Past due > 120 days	**104**	**(21)**	–	–
Total	**$25,143**	**$(80)**	$27,122	$(46)

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

	GROUP	
	2014 $000	2013 $000
Trade and other receivables – gross	**25,143**	27,122
Individual impairment	**(80)**	(46)
Trade and other receivables – net	**$25,063**	$27,076

Individually impaired trade receivables relate to a small number of customers where the amounts involved are generally immaterial. In the case of insolvency, the Group generally writes off the receivable in full unless there is clear evidence that a receipt is highly probable.

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

Balance at 1 July	**(46)**	(165)
Impaired trade receivables written off	**27**	50
Changes in impairment provision	**(61)**	69
Balance at 30 June	**$(80)**	$(46)

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

The Company had no exposure to credit risk at balance date (2013: Nil).

25. 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 positive net cash flow from operating activities, currently unutilised bank facilities (see note 20) and cash and cash equivalents at bank.

	GROUP						
			Timing of contractual cash flows				
	Statement of financial position $000	Total contractual cash flows $000	6 months or less $000	6–12 months $000	1–2 years $000	2–5 years $000	Over 5 years $000
2014							
Secured bank loans	**61,220**	**65,552**	**1,407**	**1,407**	**55,359**	**7,379**	**–**
Trade creditors and accruals	**27,258**	**27,258**	**27,258**	**–**	**–**	**–**	**–**
Employee entitlements	**6,092**	**6,092**	**6,092**	**–**	**–**	**–**	**–**
Other payables	**65**	**65**	**65**	**–**	**–**	**–**	**–**
Total non-derivative liabilities	**$94,635**	**$98,967**	**$34,822**	**$1,407**	**$55,359**	**$7,379**	**–**
Interest rate swaps	**–**	**$1,262**	**$(70)**	**$(70)**	**$(9)**	**$963**	**$448**
Forward exchange contracts							
Inflow	**–**	**43,159**	**34,015**	**9,144**	**–**	**–**	**–**
Outflow	**–**	**(41,786)**	**(32,945)**	**(8,841)**	**–**	**–**	**–**
	–	**$1,373**	**$1,070**	**$303**	**–**	**–**	**–**
2013							
Secured bank loans	58,896	61,449	1,125	1,125	56,189	3,010	–
Unsecured borrowings	86	86	86	–	–	–	–
Trade creditors and accruals	26,281	26,281	26,281	–	–	–	–
Employee entitlements	6,090	6,090	6,090	–	–	–	–
Other payables	210	210	210	–	–	–	–
Bank overdraft	234	234	234	–	–	–	–
Total non-derivative liabilities	$91,797	$94,350	$34,026	$1,125	$56,189	$3,010	–
Interest rate swaps	–	$(602)	$(258)	$(237)	$(43)	$(64)	–
Forward exchange contracts							
Inflow	–	54,651	26,222	12,503	15,926	–	–
Outflow	–	(52,178)	(25,028)	(11,933)	(15,217)	–	–
	–	$2,473	$1,194	$570	$709	–	–

NOTES TO THE FINANCIAL STATEMENTS (continued)

25. FINANCIAL INSTRUMENTS (continued)

Quantitative disclosures (continued)

Liquidity risk (continued)

	COMPANY					
			Timing of contractual cash flows			
	Statement of financial position $000	Total contractual cash flows $000	6 months or less $000	6–12 months $000	1–2 years $000	2–5 years $000
2014						
Trade creditors and accruals	**67**	**67**	**67**	**–**	**–**	**–**
Employee entitlements	**106**	**106**	**106**	**–**	**–**	**–**
Total non-derivative liabilities	**$173**	**$173**	**$173**	**–**	**–**	**–**
2013						
Trade creditors and accruals	67	67	67	–	–	–
Employee entitlements	107	107	107	–	–	–
Total non–derivative liabilities	$174	$174	$174	–	–	–

Foreign currency risk

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

	GROUP			
NZD equivalent of these foreign currencies:	AUD $000	USD $000	EUR $000	Others $000
2014				
Trade receivables	**13,418**	**894**	**176**	**–**
Secured bank loans	**(3,985)**	**–**	**–**	**–**
Trade payables	**(7,662)**	**(7,490)**	**(300)**	**(8)**
Net statement of financial position exposure before hedging activity	**1,771**	**(6,596)**	**(124)**	**(8)**
Estimated forecast sales for which hedging is in place	**18,597**	**104**	**118**	**–**
Estimated forecast purchases for which hedging is in place	**–**	**(12,122)**	**–**	**–**
Net cash flow exposure before hedging activity	**20,368**	**(18,614)**	**(6)**	**(8)**
Forward exchange contracts				
Notional amounts	**(20,368)**	**18,614**	**(285)**	**–**
Net unhedged exposure	**–**	**–**	**$(291)**	**$(8)**
2013				
Trade receivables	15,394	395	443	–
Secured bank loans	(4,485)	–	–	–
Trade payables	(9,099)	(6,908)	(433)	(67)
Net statement of financial position exposure before hedging activity	1,810	(6,513)	10	(67)
Estimated forecast sales for which hedging is in place	60,047	291	5	–
Estimated forecast purchases for which hedging is in place	–	(1,013)	(485)	–
Net cash flow exposure before hedging activity	61,857	(7,235)	(470)	(67)
Forward exchange contracts				
Notional amounts	(61,857)	5,541	359	59
Net unhedged exposure	–	$(1,694)	$(111)	$(8)

The Company had no exposure to foreign currency risk at balance date (2013: Nil).

25. 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:

	GROUP										
	2014						2013				
	Total $000	6 months or less $000	6–12 months $000	1–2 years $000	2–5 years $000	Over 5 years $000	Total $000	6 months or less $000	6–12 months $000	1–2 years $000	2–5 years $000
Financial assets and liabilities											
Cash and cash equivalents	**2,375**	**2,375**	**–**	**–**	**–**	**–**	5,932	5,932	–	–	–
Secured bank loans	**(61,220)**	**(61,220)**	**–**	**–**	**–**	**–**	(58,896)	(58,896)	–	–	–
Unsecured borrowings	**–**	**–**	**–**	**–**	**–**	**–**	(86)	(86)	–	–	–
Bank overdrafts	**–**	**–**	**–**	**–**	**–**	**–**	(234)	(234)	–	–	–
	(58,845)	**(58,845)**	**–**	**–**	**–**	**–**	(53,284)	(53,284)	–	–	–
Related derivatives											
Effect of interest rate swaps	**–**	**25,000**	**–**	**–**	**(17,500)**	**(7,500)**	–	25,000	(20,000)	–	(5,000)
Total	**$(58,845)**	**$(33,845)**	**–**	**–**	**$(17,500)**	**$(7,500)**	$(53,284)	$(28,284)	$(20,000)	–	$(5,000)

The Company had no exposure to interest rate risk arising from either fixed rate instruments or variable rate instruments and related derivatives (2013: Nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)

25. FINANCIAL INSTRUMENTS (continued)

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, to sustain its future development and to take advantage of any other business opportunities that may arise from time to time.

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 Managing Director 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 the gearing ratio and leverage. The gearing ratio is calculated as net debt divided by total equity. Net debt is calculated 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. Leverage is calculated as net debt divided by total capital employed. 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 gearing ratio and leverage at balance date were as follows:

	GROUP	
	2014 $000	2013 $000
Total loans and borrowings, including current portion	**61,220**	58,982
Plus bank overdraft	**–**	234
Less cash and cash equivalents	**(2,375)**	(5,932)
Net debt	**58,845**	53,284
Total equity	**92,959**	93,918
Total capital employed	**$151,804**	$147,202
Gearing ratio	**63.3%**	56.7%
Leverage	**38.8%**	36.2%

25. 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, permanent changes in foreign exchange and interest rates will have an impact on profit.

At 30 June 2014, it is estimated that a general increase of one percentage point in interest rates would decrease the Group's profit before income tax by approximately $362,000 (2013: $340,000). Interest rate swaps have been included in this calculation.

It is estimated that a general increase of one percentage point in the value of the New Zealand dollar against other foreign currencies at balance date would have an immaterial impact on the Group's profit before income tax for the years ended 30 June 2014 and 2013 after taking into account the forward exchange contracts that the Group had in place at balance date.

Hedging

Interest rate hedges

The Group has a policy of ensuring that up to 40% of its exposure to changes in interest rates on borrowings is on a fixed rate basis. Interest rate swaps, denominated in both New Zealand and Australian dollars, have been entered into to achieve an appropriate mix of fixed and floating rate exposure within the Group's policy.

At 30 June 2014, the Group had interest rate swaps with a notional contract amount of $25,000,000 (2013: $25,000,000). Of these, none will mature within six months of balance date (2013: Nil), with the balance maturing over the next six years. The Group classifies interest rate swaps as cash flow hedges. These swaps have fixed swap rates ranging from 3.87% to 4.92% (2013: 4.65% to 6.29%).

The net fair value of swaps at 30 June 2014 was a profit of $49,000 (2013: loss of $431,000).

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 (2013: 24 months). The net fair value of forward exchange contracts used as hedges of forecast transactions at 30 June 2014 was a gain of $1,265,000 (2013: $1,811,000).

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 2014 was a gain of $275,000 (2013: $661,000) recognised in fair value derivatives.

Hedge of net investment in foreign operation

One of the Group's Australian dollar denominated secured bank loans is designated as a hedge against the property held by a subsidiary. The carrying amount of the loan at 30 June 2014 was $2,908,000 (2013: $3,208,000). A gain of $300,000 (2013: $240,000) was recognised in the foreign currency translation reserve within equity on the translation of the loan to New Zealand dollars.

NOTES TO THE FINANCIAL STATEMENTS (continued)

25. 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. They do not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	GROUP 2014								
	Trading $000	Loans and receivables $000	Other amortised cost $000	Total carrying amount	Fair value $000	Level 1 $000	Level 2 $000	Level 3 $000	Fair value $000
Assets									
Derivatives	2,227	–	–	2,227	2,227	–	2,227	–	2,227
Trade and other receivables		25,063		25,063	25,063				
Cash and cash equivalents	–	2,375	–	2,375	2,375				
Total assets	$2,227	$27,438	–	$29,665	$29,665				
Liabilities									
Loans and borrowings	–	–	61,220	61,220	61,220				
Total non-current liabilities	–	–	61,220	61,220	61,220				
Derivatives	639	–	–	639	639	–	639	–	639
Trade and other payables	–	–	33,415	33,415	33,415				
Total current liabilities	639	–	33,415	34,054	34,054				
Total liabilities	$639	–	$94,635	$95,274	$95,274				

25. FINANCIAL INSTRUMENTS (continued)

Classification and fair values (continued)

	GROUP 2013								
	Trading $000	Loans and receivables $000	Other amortised cost $000	Total carrying amount	Fair value $000	Level 1 $000	Level 2 $000	Level 3 $000	Fair value $000
Assets									
Derivatives	2,518	–	–	2,518	2,518	–	2,518	–	2,518
Trade and other receivables		27,076		27,076	27,076				
Cash and cash equivalents	–	5,932	–	5,932	5,932				
Total assets	$2,518	$33,008	–	$35,526	$35,526				
Liabilities									
Loans and borrowings	–	–	58,896	58,896	58,896				
Total non-current liabilities	–	–	58,896	58,896	58,896				
Derivatives	477	–	–	477	477	–	477	–	477
Trade and other payables	–	–	32,581	32,581	32,581				
Bank overdraft	–	–	234	234	234				
Loans and borrowings	–	–	86	86	86				
Total current liabilities	477	–	32,901	33,378	33,378				
Total liabilities	$477	–	$91,797	$92,274	$92,274				

NOTES TO THE FINANCIAL STATEMENTS (continued)

25. FINANCIAL INSTRUMENTS (continued)

Determination of fair values

The methods used in determining the fair values of financial instruments are discussed in note 2.

Derivatives, being forward exchange contracts and interest rate swaps, have been measured at fair value using the market comparison technique. Under this technique, fair values are based on broker quotes which reflect actual transactions of similar instruments traded in an active market.

In the case of loans and borrowings which were negotiated in June 2012, and subsequently amended and extended in December 2013, the underlying interest rate margins approximate current margins, and fair value approximates the present value of future principal and interest cash flows.

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:

	GROUP			
	2014		2013	
	Derivative assets $000	Derivative liabilities $000	Derivative assets $000	Derivative liabilities $000
Gross amounts in the statement of financial position	**2,227**	**(639)**	2,518	(477)
Amounts offset	**–**	**–**	–	–
Net amounts in the statement of financial position	**2,227**	**(639)**	2,518	(477)
Related amounts that are not offset based on ISDA	**(639)**	**639**	(477)	477
Net amounts	**$1,588**	**–**	$2,041	–

26. RECONCILIATION OF PROFIT WITH NET CASH FLOW FROM OPERATING ACTIVITIES

	GROUP		COMPANY	
	2014 $000	2013 $000	2014 $000	2013 $000
Profit after tax for the period	**5,790**	3,030	**30**	131
Add/(Deduct) non-cash items:				
Equity-settled share-based transactions	**–**	19	**–**	19
Depreciation	**5,849**	6,328	**–**	–
Reversal of impairment of trademark	**–**	(292)	**–**	–
Impairment of plant and equipment	**–**	572	**–**	–
Deferred government grants	**(321)**	(351)	**–**	–
Share of profit of equity-accounted investee	**(2,044)**	(5,013)	**–**	–
Deferred tax asset	**(432)**	(1,569)	**10**	453
Employee benefits	**(200)**	(535)	**(35)**	–
Deferred income	**(73)**	(75)	**–**	–
Provisions	**(2,027)**	630	**–**	–
Net loss on sale of property, plant and equipment	**81**	9	**–**	–
Net loss on foreign currency balance	**140**	61	**–**	–
Changes in working capital items:				
Trade and other receivables	**906**	912	**(1)**	–
Inventories	**(10,734)**	5,248	**–**	–
Tax payable/receivable	**1,834**	(83)	**239**	(117)
Trade creditors and accruals	**1,420**	3,440	**–**	(1,626)
Derivative financial instruments	**426**	(655)	**–**	–
Net cash flow from operating activities	**$615**	$11,676	**$243**	$(1,140)

NOTES TO THE FINANCIAL STATEMENTS (continued)

27. SEGMENT REPORTING

Reportable segments

The Group's reportable segments are:

- carpets, which involves the manufacturing and sales of carpets by the Cavalier Bremworth and Norman Ellison broadloom carpet businesses and the Ontera Modular carpet tile operation; and
- wool acquisition, through Elco Direct.

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 Managing Director – 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.

The Group has determined pursuant to NZ IFRS 8 *Operating Segments* that the Cavalier Bremworth and Norman Ellison broadloom carpet businesses, the Ontera Modular carpet tile operation, the Radford Yarn operation and the Elco Direct wool acquisition unit are the Group's operating segments.

In determining its reportable segments, the Group considered the criteria set out in paragraph 12 of NZ IFRS 8 and was able to aggregate the broadloom carpet and carpet tile operating segments into a single reportable segment.

In aggregating these two operating segments into the one reportable segment, the Group identified similarities in the following:

Nature of the products

The products of the two operating segments are, in reality, identical.

They do the same thing and serve the same purpose, notwithstanding that they can be offered or presented in different dimensions. These do not alter the fact that they are ultimately all carpets.

Both broadloom carpets and carpet tiles can be made from wool or man-made fibres. Because all carpets – regardless of fibre types – compete with each other in the market and are generally readily substitutable for each other, the Group believes that these underlying differences also do not affect the nature of the products.

Nature of the production processes

The production processes for both carpet tiles and broadloom carpets are very similar. The bulk of products are manufactured using the same tufting technology and the same tufting machines.

Ontera Modular uses dye-injection technology for some of its tiles and while this is not used by Cavalier Bremworth or Norman Ellison, dye-injection technology is not unique to carpet tiles and is common in broadloom carpet manufacturing as well.

Type or class of customers for their products

Ontera Modular's products are designed for the commercial market, with applications ranging from corporate and retail to education, healthcare and retirement and for both new installations and refurbishments.

Cavalier Bremworth's and Norman Ellison's product offerings are, however, more diverse and are designed for both residential and commercial applications.

The type or class of customer for the Ontera Modular, Cavalier Bremworth and Norman Ellison commercial offerings are therefore similar, but this similarity also extends to the type or class of customer that traditionally deals in Cavalier Bremworth and Norman Ellison residential products.

27. SEGMENT REPORTING (continued)

Reportable segments (continued)

Methods used to distribute their products

Both broadloom carpets and carpet tiles are being distributed through similar distribution channels with Cavalier Bremworth, Norman Ellison and Ontera Modular relying on the carpet retailers (both the retail groups and independents) and the "architectural and designer" community to sell their products.

Similarities in economic characteristics

The Group also considered and identified similarities in economic characteristics in the broadloom carpet and carpet tile operating segments.

In assessing the economic characteristics of the two operating segments for similarity, the Group considered a number of factors, including the following:

- changes in market size through natural population growth, migration and gain from/loss to, other types of flooring (eg. wood, ceramics, etc);
- effect of changes in exchange rate against the USD on raw material input costs and general market competitiveness;
- consumer confidence in general (eg. as a result of the state of the domestic economy, employment rates, domestic interest rates and Reserve Bank monetary policy settings); and
- new building and refurbishment activities.

The Group concluded, having considered all these factors, that the two operating segments exhibited similar economic characteristics because the impact of these factors is expected to be similar across both operating segments. This conclusion is further supported by the following observations:

- the two operating segments compete with each other in the same carpet market and their products are generally readily substitutable for each other;
- a significant proportion of their raw material inputs are imported, and imported carpets make up a significant proportion of the carpet market;
- consumer spending on carpets are deferrable, and the sales of the two operating segments respond in the same manner to consumer confidence; and
- they are affected in much the same way by the level of new building and refurbishment activities.

The Radford Yarn operation fell below the quantitative thresholds set out in NZ IFRS 8 Operating Segments to be a reportable segment.

NOTES TO THE FINANCIAL STATEMENTS (continued)

27. SEGMENT REPORTING (continued)

Inter-segment transactions

All inter-segmental sales are at market prices. Inter-segmental sales during the period and intercompany profits on stocks at balance date are eliminated on consolidation.

Information about 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.

	GROUP	
	2014 $000	2013 $000
Revenue		
New Zealand	**95,096**	85,696
Australia	**99,014**	110,275
Rest of the world	**6,532**	5,768
	$200,642	$201,739

	GROUP	
	As at 30 June 2014 $000	As at 30 June 2013 $000
Non-current assets		
New Zealand	**82,579**	81,011
Australia	**18,122**	22,368
	$100,701	$103,379

Information about major customers

None of the Group's customers are major customers as defined in NZ IFRS 8 *Operating Segments*. Major customers are those external customers where revenues from transactions with the Group are equal to, or exceed, 10% of the Group's total revenues.

27. SEGMENT REPORTING (continued)

	CARPETS		WOOL ACQUISITION		OTHER		TOTAL	
	2014 $000	2013 $000	**2014 $000**	2013 $000	**2014 $000**	2013 $000	**2014 $000**	2013 $000
External revenue	**163,558**	168,963	**33,943**	29,783	**3,141**	2,993	**200,642**	201,739
Inter-segment revenue	**–**	–	**8,381**	4,903	**5,399**	2,598	**13,780**	7,501
Total revenue	**$163,558**	$168,963	**$42,324**	$34,686	**$8,540**	$5,591	**214,422**	209,240
Elimination of inter-segment revenue							**(13,780)**	(7,501)
Consolidated revenue							**$200,642**	$201,739
Segment result before depreciation and restructuring costs	**13,897**	12,352	**1,523**	1,532	**1,221**	146	**16,641**	14,030
Depreciation	**(5,460)**	(5,944)	**(105)**	(102)	**(284)**	(282)	**(5,849)**	(6,328)
Segment result before restructuring costs	**8,437**	6,408	**1,418**	1,430	**937**	(136)	**10,792**	7,702
Restructuring costs[1]	**–**	(4,991)	**–**	–	**–**	–	**–**	(4,991)
Segment result after restructuring costs	**8,437**	1,417	**1,418**	1,430	**937**	(136)	**10,792**	2,711
Elimination of inter-segment profits							**(327)**	(162)
Unallocated corporate costs							**(1,705)**	(1,726)
Results from operating activities							**8,760**	823
Net finance costs							**(3,484)**	(3,740)
Share of profit of equity-accounted investee (net of income tax)							**2,044**	5,013
Profit before income tax							**7,320**	2,096
Income tax (expense)/benefit							**(1,530)**	934
Profit after tax for the period							**$5,790**	$3,030
Reportable segment assets	**160,740**	162,924	**3,684**	2,371	**7,736**	7,486	**172,160**	172,781
Investment in equity-accounted investee							**25,900**	23,856
Unallocated assets							**–**	–
Total assets							**$198,060**	$196,637
Capital expenditure	**2,076**	1,871	**248**	36	**170**	–	**$2,494**	$1,907
Reportable segment liabilities	**40,289**	40,361	**2,890**	2,134	**702**	1,242	**43,881**	43,737
Unallocated liabilities							**61,220**	58,982
Total liabilities							**$105,101**	$102,719
Employee numbers								
Operations	**643**	678	**26**	34	**36**	29	**705**	741
Unallocated							**5**	4
Total employee numbers							**710**	745

[1] No restructuring costs were incurred during the year (2013: Employee termination benefits, employee supports costs, costs to relocate plant and equipment and contract termination costs as a consequence of further business improvement plans initiated during the year to improve the level of efficiencies and to reposition the broadloom carpet business in terms of cost base, capacity, structure, product portfolio, channels and markets).

NOTES TO THE FINANCIAL STATEMENTS (continued)

28. OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	GROUP	
	2014 $000	2013 $000
Less than one year	**6,778**	7,226
Between one and five years	**16,111**	21,478
More than five years	**1,249**	3,167

The Group leases a number of warehouse and factory facilities under operating leases. The lease terms vary from site to site and can run up to terms in excess of 10 years depending upon the nature of the facility and its significance to the business. The Group has, in some of the operating leases, an option or a number of options to renew after their due date. 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 has considered a number of factors relating to its longer-term leases and because titles in the relevant land do not pass, rentals paid are increased to market rents at regular intervals, and the Group does not participate in the residual value of the building, it is satisfied that substantially all the risks and rewards of the buildings are with the landlord. These leases have therefore been dealt with as operating leases in the financial statements.

The major leased warehouse and factory facilities as at balance date were as follows:

	Term from balance date	Rights of renewal
6 Hautu Drive, Auckland, New Zealand	3 years	Two rights of renewal of 6 years each
273 Neilson Street, Auckland, New Zealand	6 years	None
373 Neilson Street, Auckland, New Zealand	5 years	None
27 Connaught Drive, Christchurch, New Zealand	3 years	Two rights of renewal of 6 years each
171 Briens Road, Sydney, Australia	2 years	One right of renewal of 10 years
10 Gassman Drive, Yatala, Queensland, Australia	3 years	None

The Group also leases motor vehicles and forkhoists under operating leases. The former would generally be for terms ranging from 36 months to 45 months and the latter for terms of up to 60 months depending upon the extent of use. Because the risks and rewards of ownership in respect of these leased items are with the lessor, they have been accounted for as operating leases in the financial statements.

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. Both of these leased properties have since been sub-leased. Provisions in respect of shortfall in sub-lease income were established at the time of the restructuring and can be found in note 23.

During the year ended 30 June 2014, $6,357,000 was recognised as an expense in the income statement in respect of operating leases (2013: $6,738,000).

The Company had no lease commitments as a lessee at balance date (2013: Nil).

Leases as lessor

To recoup some of the costs associated with maintaining premises, whether leased or owned, that are surplus to requirements, the Group may, from time to time, lease out sections of these premises under short term operating leases.

During the year ended 30 June 2014, $23,000 was recognised as rentals received in the income statement in respect of the lease of these premises (2013: $23,000).

The Company had no lease commitments as a lessor at balance date (2013: Nil).

29. CAPITAL COMMITMENTS

As at balance date, the Group had outstanding commitments for capital expenditure (being plant and equipment for its various manufacturing operations) of $768,000 (2013: $60,000). These commitments are expected to be settled in the following financial year.

The Company had no capital commitments at balance date (2013: Nil).

30. CONTINGENCIES

The Group had granted indemnities in favour of Bank of New Zealand and National Australia Bank Limited (together, "the Bank") at balance date in respect of:

	GROUP	
	2014 $000	2013 $000
Bank guarantees relating to operating leases and other commitments	**$1,424**	$1,496

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

Where the Company enters into financial guarantees to secure the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

The Group's indebtedness under the cross guarantee at balance date amounted to $57,257,000 (2013: $55,489,000).

31. RELATED PARTIES

GROUP

Transactions with substantial security holders

Chippendale Holdings Limited and Rural Aviation (1963) Limited are substantial security holders in the Company. Chippendale Holdings Limited is the registered holder of 9,174,312 ordinary shares in the capital of the Company (or 13.4% of the total number of ordinary shares on issue) and Rural Aviation (1963) Limited is the registered holder of 8,467,642 ordinary shares in the capital of the Company (or 12.3% of the total number of ordinary shares on issue).

Rural Aviation (1963) Limited is also associated with Mr G C W Biel, a non-executive director of the Company.

The Group previously had short term loans and borrowings from Chippendale Holdings Limited and Rural Aviation (1963) Limited, which were unsecured and repayable on demand.

These short term loans and borrowings were fully repaid during the year.

The amounts borrowed from Chippendale Holdings Limited and Rural Aviation (1963) Limited as at 30 June 2013 were $9,000 and $77,000 respectively and the interest rate applicable as at that date was 3.45%, compared with a commercial interest rate of 4.6% for borrowings of a similar tenure from the Bank of New Zealand.

NOTES TO THE FINANCIAL STATEMENTS (continued)

31. RELATED PARTIES (continued)

GROUP (continued)

Transactions with directors and key management personnel

For the purposes of note 31, key management personnel are the officers of the Company, as defined in section 2 of the Securities Markets Act 1988, the Company Secretary, the Group Financial Controller and the Group Information Services Manager.

Executive share rights plan

The Managing Director and certain key management personnel are participants in the Cavalier Corporation Limited 2000 Executive Share Rights Plan, the details of which can be found in note 18.

Shareholdings

Some Directors and a number of key management personnel 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.

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 non-executive directors, shareholders' approval of directors' fees and, in the case of the Managing Directors, the approval to issue further rights under the Cavalier Corporation Limited 2000 Executive Share Rights Plan.

Loans to directors and key management personnel

There were no loans to the Directors and key management personnel of the Company and the Group during the year ended 30 June 2014 (2013: Nil). As a result, there were no provisions for doubtful debts or write offs for bad debts during the year in respect of the Directors and key management personnel (2013: Nil).

Non-executive directors' remuneration

The fees paid to the non-executive directors for services in their capacity as non-executive directors totalled $287,677 during the year ended 30 June 2014 (2013: $314,456).

No other services were provided by the non-executive directors during the year (2013: Nil).

The scale of fees payable to the non-executive directors was last reviewed on 1 July 2011 and is set out below:

	COMPANY AND GROUP With effect from 1 July 2011
Non-executive Chairman of the Board	$96,000 per annum
Non-executive Chairman of the Audit Committee	$54,000 per annum
Other non-executive directors	$48,000 per annum

A number of existing long-serving non-executive directors are also entitled to lump sum retiring allowances pursuant to an arrangement that is contained in the Company's constitution. The quantum of these retiring allowances, which were set after having regard to their lengths of service and the positions they held during their tenure, are set out below:

	COMPANY AND GROUP
A M James – Chairman	70,000
G C W Biel	96,000
G S Hawkins	96,000
Total	$262,000

The Company decided, in November 2007, that retiring allowances would no longer be offered in respect of new non-executive directors appointed to the Board of Directors.

31. RELATED PARTIES (continued)

GROUP (continued)

Transactions with directors and key management personnel (continued)

Key management personnel (including the Managing Director) remuneration

In addition to salaries and performance-based payments, the Company also provides non-cash benefits to the Managing Director of the Company and certain key management personnel of the Group.

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

The Managing Director of the Company and certain key management personnel are also eligible for retiring allowances, based on their salary and length of service with the Company at the time of their retirement.

The Managing Director of the Company and certain key management personnel are also participants in the Cavalier Corporation Limited 2000 Executive Share Rights Plan, the details of which can be found in note 18.

The remuneration paid and payable, and the benefits provided, to the Managing Director and key management personnel in their capacities as employees or consultants comprised:

	Note	GROUP 2014 $000	GROUP 2013 $000	COMPANY 2014 $000	COMPANY 2013 $000
Wages, salaries, bonuses and holiday pay		**2,211**	3,753	**1,286**	3,005
Consultancy fees		**401**	351	**–**	–
Employee benefits		**258**	634	**142**	509
Increase in liability for retiring allowances and long service leave		**32**	(240)	**32**	(240)
Equity-settled share-based payments	18	**–**	19	**–**	19
		$2,902	$4,517	**$1,460**	$3,293

The Company and the Group has not provided the Managing Director and key management personnel with any post-employment benefits.

Other transactions with key management personnel

The Company and the Group deal with many entities and organisations in the normal course of business. The Company and the Group are not aware of any of the Managing Director or key management personnel, or their related parties, holding positions in any of these entities or organisations that result in them having control or significant influence over the financial or operating policies of these entities or organisations.

The Company and the Group do not transact with the Managing Director, key management personnel and their related parties, other than in their capacity as employees or consultants, 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 or personal in nature.

NOTES TO THE FINANCIAL STATEMENTS (continued)

31. RELATED PARTIES (continued)

GROUP (continued)

Transactions with non-controlling interests

Options over shares in non-wholly-owned subsidiaries

Pursuant to the shareholders' agreements that were reached with the non-controlling interests at the time of the relevant business combinations involving these non-wholly-owned subsidiaries, the Group granted, in favour of these non-controlling interests, put options that give them the right to sell their respective shareholdings to the Group. In return for granting these put options, the non-controlling interests have also granted call options which give the Group the corresponding right to buy the non-controlling interests out of these subsidiaries. The prices at which these shareholdings can be sold or bought were arrived at on an arms-length basis. See note 19 for the accounting treatment of non-controlling interests and their put options.

The non-controlling interests are employees. As a result, the disclosure of transactions with key management personnel in the preceding part of this note applies to these non-controlling interests.

At balance date, only the put options granted to the non-controlling interests of Ontera Modular Carpets Pty Limited remain outstanding.

Purchase of shares in non-wholly-owned subsidiaries

The Company acquired 5,000 shares in Ontera Modular Carpets Pty Limited ("Ontera"), which is equivalent to 0.25% of the shares on issue, during the year.

Pursuant to NZ IAS 32 Financial Instruments: Disclosure and Presentation, the Group has been recognising the put options granted to the non-controlling interest of Ontera in respect of their 3.25% shareholding as financial liabilities, effectively treating these put options as if they had already been exercised and accounting for Ontera in the consolidated financial statements as if it was 100% owned.

As a consequence, the acquisition of the 0.25% of Ontera has not affected the way it has previously been accounted for.

The Group completed its purchase of the remaining 25% of Radford Yarn Technologies Limited in the previous financial year, making it a wholly-owned subsidiary at the previous balance date.

Dividends paid to non-controlling interests

No dividends were paid to the non-controlling interests in non-wholly-owned subsidiaries during the year (2013: Nil).

31. RELATED PARTIES (continued)

COMPANY

Transactions with subsidiaries

The nature and value of transactions with subsidiaries during the year, along with the balances at balance date, are set out in the tables below:

	COMPANY	
	2014 $000	2013 $000
Management fees charged		
To:		
Cavalier Bremworth Limited	**1,350**	1,900
Knightsbridge Carpets Limited	**–**	100
Cavalier Bremworth (Australia) Limited	**260**	300
Cavalier Spinners Limited	**100**	100
Norman Ellison Carpets Limited	**232**	–
Total	**$1,942**	$2,400
Advances to/(from) subsidiaries during the year		
Cavalier Bremworth Limited	**(4,184)**	(1,871)
Knightsbridge Carpets Limited	**–**	100
Cavalier Spinners Limited	**100**	100
Norman Ellison Carpets Limited	**232**	–
Total	**$(3,852)**	$(1,671)
Advances to/(from) subsidiaries at balance date		
Cavalier Bremworth Limited	**(7,740)**	(3,556)
Knightsbridge Carpets Limited	**750**	750
Cavalier Bremworth (Australia) Limited	**135**	135
E Lichtenstein and Company Limited	**(35)**	(35)
Cavalier Spinners Limited	**1,878**	1,778
EnCasa Carpets Limited	**(50)**	(50)
Cavalier Holdings (Australia) Pty Limited	**271**	271
Microbial Technologies Limited	**(535)**	(535)
Norman Ellison Carpets Limited	**232**	–
Total	**$(5,094)**	$(1,242)

These advances are interest free and are repayable on demand.

No dividends were received from subsidiaries during the year (2013: Nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)

32. GROUP ENTITIES

	COUNTRY OF INCORPORATION	INTEREST (%)	
		2014	2013
Operating subsidiaries of the Company and Group			
Cavalier Bremworth Limited	New Zealand	**100.00**	100.00
Cavalier Bremworth (Australia) Limited	New Zealand	**100.00**	100.00
Cavalier Bremworth Pty Limited	Australia	**100.00**	100.00
Cavalier Spinners Limited	New Zealand	**100.00**	100.00
Elco Direct Limited	New Zealand	**100.00**	100.00
Kimberley Carpets Pty Limited	Australia	**100.00**	100.00
Knightsbridge Carpets Limited	New Zealand	**100.00**	100.00
Norman Ellison Carpets Limited	New Zealand	**100.00**	100.00
Norman Ellison Carpets Pty Limited	Australia	**100.00**	100.00
Radford Yarn Technologies Limited	New Zealand	**100.00**	100.00
Ontera Modular Carpets Pty Limited	Australia	**97.00**	96.75
Ontera Modular Carpets Limited	New Zealand	**97.00**	96.75
Equity-accounted investee of the Group			
Cavalier Wool Holdings Limited	New Zealand	**50.00**	50.00

33. EVENTS AFTER BALANCE DATE

Dividends

The Directors have decided that no final dividend will be payable in respect of the current year ended 30 June 2014 (2013: 4 cents per share fully imputed on 68,263,857 shares giving a total of $2,730,554).

34. AMENDMENTS TO STANDARDS

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

NZ IFRS 9 *Financial Instruments: Classification and Measurement* (mandatory for annual periods beginning on or after 1 January 2015)

NZ IFRS 9 replaces parts of NZ IAS 39 *Financial Instruments: Recognition and Measurement* that relate to the classification and measurement of financial instruments. NZ IFRS 9 requires financial assets to be classified into two measurement categories – amortised cost and fair value.

The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

For financial liabilities, the standard retains most of the requirements of NZ IAS 39. The main change is that in cases where fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in the income statement, unless this creates an accounting mismatch.

The Group will apply NZ IFRS 9 prospectively from 1 July 2015.

Other amendments that are unlikely to have an impact on the Group's financial statements have not been analysed.

TREND STATEMENT

	2014 $000	2013 $000	2012 $000	2011 $000	2010 $000	2009 $000
Financial Performance						
Operating revenue	**$200,642**	$201,739	$217,198	$229,373	$220,274	$246,686
EBITDA and abnormal costs	**14,609**	12,142	12,278	31,916	27,257	31,643
Depreciation	**(5,849)**	(6,328)	(6,738)	(6,315)	(5,581)	(6,643)
Amortisation	**–**	–	–	–	–	–
EBIT and abnormal costs	**8,760**	5,814	5,540	25,601	21,676	25,000
Net interest expense	**(3,484)**	(3,740)	(4,049)	(3,545)	(3,478)	(5,936)
Share of tax-paid profit of equity-accounted investees	**2,044**	5,013	3,302	2,039	4,015	430
Profit before income tax (normalised)	**7,320**	7,087	4,793	24,095	22,213	19,494
Income tax expense	**(1,530)**	(463)	(510)	(6,829)	(5,586)	(5,843)
Profit after tax (normalised)	**5,790**	6,624	4,283	17,266	16,627	13,651
Non-controlling interests	**–**	–	–	–	–	–
Profit after tax attributable to shareholders of the company (normalised)	**5,790**	6,624	4,283	17,266	16,627	13,651
Abnormal costs (after tax)	**–**	(3,594)[1]	(5,916)[2]	914[3]	(5,258)[4]	1,238[5]
Profit/(Loss) after tax attributable to shareholders of the company (reported)	**5,790**	3,030	(1,633)	18,180	11,369	14,889
Ordinary dividends paid	**(4,785)**	–	(7,509)	(12,233)	(10,104)	(12,075)
Profit/(Loss) after dividends	**$1,005**	$3,030	$(9,142)	$5,947	$1,265	$2,814
Financial Position						
Shareholders' equity	**92,959**	93,918	90,855	99,294	91,451	87,595
Loans and borrowings	**61,220**	58,896	68,503	60,070	51,776	54,585
Term liabilities	**6,363**	6,961	5,591	4,927	6,526	6,324
Deferred tax liability	**–**	–	–	–	726	–
Current liabilities	**37,518**	36,862	36,485	51,434	40,545	47,960
Shareholders' equity and total liabilities	**$198,060**	$196,637	$201,434	$215,725	$191,024	$196,464
Fixed assets	**63,900**	68,932	75,080	80,110	75,878	77,013
Investment in equity-accounted investees	**25,900**	23,856	22,593	22,291	20,095	18,859
Goodwill and other intangibles	**7,794**	7,794	7,502	7,502	5,292	5,533
Deferred tax asset	**3,107**	2,797	1,998	158	–	3,175
Non-current assets	**100,701**	103,379	107,173	110,061	101,265	104,580
Current assets	**97,359**	93,258	94,261	105,664	89,759	91,884
Total assets	**$198,060**	$196,637	$201,434	$215,725	$191,024	$196,464

[1] Employee termination benefits, employee support costs, costs to relocate plant and equipment and contract termination costs as a consequence of further business improvement plans to continue to improve the level of efficiencies and to reposition the broadloom carpet business in terms of cost base, capacity, structure, product portfolio, channels and markets of $4,113,000 after tax, offset by releases of provisions taken up in the previous year of $519,000 after tax.

[2] Employee termination benefits, employee support costs, costs to relocate plant and equipment and contract termination costs as a consequence of various business improvement plans initiated during the year in response to the deterioration in trading conditions.

[3] Adjustments to deferred tax accounts for the further effects of the impending changes in domestic income tax rate and in legislation relating to tax depreciation on buildings as announced by the New Zealand Government in its 2010 Budget in May 2010 and subsequently amended to deal with commercial fit-outs following the release by the Commissioner of Inland Revenue in August 2010 of its paper "Post-budget depreciation issues".

[4] Adjustments to deferred tax accounts for the effects of the impending changes in domestic income tax rate and in legislation relating to tax depreciation on buildings as announced by the New Zealand Government in its 2010 Budget in May 2010.

[5] Gain on dilution of subsidiary of $1,843,000, offset by impairment of trademarks of $605,000.

TREND STATEMENT (continued)

	2014	2013	2012	2011	2010	2009
Financial Ratios and Summary						
Use of Funds and Return on Investment						
Return on average shareholders' equity (normalised)	**6.2%**	7.2%	4.5%	18.1%	18.6%	15.8%
NOPAT : Total funds employed (normalised)	**4.2%**	5.4%	4.4%	10.8%	12.9%	11.5%
Basic and diluted earnings per ordinary share (normalised)	**8.5c**	9.7c	6.3c	25.4c	24.6c	20.3c
Financial Structure						
Net tangible asset backing per ordinary share	**$1.24**	$1.26	$1.22	$1.34	$1.27	$1.22
Proprietorship ratio	**46.9%**	47.8%	45.1%	46.0%	47.9%	44.6%
Net interest-bearing debt : equity ratio	**39:61**	36:64	42:58	40:60	35:65	42:58
Net interest cover (normalised) (times)	**2.5**	3.0	2.4	7.2	7.5	4.2
Return to Shareholders						
Dividends paid per ordinary share (excluding supplementary)	**7.0c**	–	11.0c	18.0c	15.0c	18.0c
Dividend imputation	**100%**	–	100%	100%	100%	100%
Ordinary dividend cover (normalised) (times)	**1.2**	–	0.6	1.4	1.6	1.1
Supplementary dividends paid per ordinary share	**1.24c**	–	1.94c	3.18c	2.65c	3.18c
Share Price						
June	**$1.33**	$1.70	$1.52	$3.80	$2.45	$1.80
52 week high	**$2.03**	$2.12	$3.83	$4.00	$2.95	$3.10
52 week low	**$1.33**	$1.45	$1.41	$2.33	$1.80	$1.15
Market Capitalisation ($000)						
June	**$91,343**	$116,049	$103,761	$259,403	$166,197	$120,748
Capital Expenditure and Depreciation ($000)						
Capital expenditure	**$2,494**	$1,907	$2,457	$5,391	$6,002	$12,510
Depreciation	**$5,849**	$6,328	$6,738	$6,315	$5,581	$6,643

GLOSSARY OF FINANCIAL TERMS

Earnings before interest, tax, depreciation, and amortisation (EBITDA)	Profit/(Loss) before income tax plus net interest expense, depreciation and amortisation
Earnings before interest and tax (EBIT) (normalised)	Profit/(Loss) before tax (normalised) plus net interest expense
Net operating profit after tax (NOPAT) (normalised)	EBIT (normalised) less theoretical tax on EBIT plus dividends received from equity-accounted investees
Net assets	Total assets less total liabilities
Total funds employed	Shareholders' equity plus net interest-bearing liabilities, or Total assets less cash at bank less non interest-bearing liabilities

USE OF FUNDS AND RETURN ON INVESTMENT

Return on average shareholders' equity (normalised)	$\frac{\text{Profit/(Loss) after tax (normalised)}}{\text{Average shareholders' equity}}$
NOPAT : Total funds employed (normalised)	$\frac{\text{NOPAT (normalised)}}{\text{Total funds employed}}$
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	$\frac{\text{Net assets less non-controlling interests less goodwill and other intangibles}}{\text{Number of ordinary shares on issue at balance date}}$
Proprietorship ratio	$\frac{\text{Shareholders' equity}}{\text{Shareholders' equity and total liabilities}}$
Net interest-bearing debt : equity ratio	$\frac{\text{Interest-bearing debt less cash at bank}}{\text{Shareholders' equity}}$
Net interest cover (normalised)	$\frac{\text{EBIT (normalised) plus dividends received from equity-accounted investees grossed up for imputation}}{\text{Net interest expense}}$

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 89 to 91, 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 and abnormal costs*", "*EBIT and abnormal costs*", "*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 Managing Director 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

Calculation of earnings per share, basic and diluted, under GAAP and non-GAAP measures

	GAAP-compliant reported profit after tax	Add back restructuring costs (net of tax)	Normalised profit after tax
Year ended 30 June 2014			
Profit attributable to shareholders	**$5,790,000**	–	**$5,790,000**
Weighted average number of ordinary shares	**68,462,919**		**68,462,919**
Earnings per share (basic and diluted)	**8.5 cents**		**8.5 cents**
Year ended 30 June 2013			
Profit attributable to shareholders	$3,030,000	$3,594,000	$6,624,000
Weighted average number of ordinary shares	68,263,857		68,263,857
Earnings per share (basic and diluted)	4.4 cents		9.7 cents

OTHER
DISCLOSURES

DISCLOSURES UNDER THE COMPANIES ACT 1993

Year ended 30 June 2014

DIRECTORS (s211(1)(i))

The Directors of the Company as at 30 June 2014 were:

G C W Biel

G D Edmond

G S Hawkins

S E F Haydon

A M James

C A McKenzie

G D Edmond was appointed a director on 1 February 2014.

K L Thorpe retired from the Board on 13 December 2013.

INTERESTS REGISTER (s189(1)(c)) (s211(1)(e))

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 this interests register for the year to be disclosed in the Annual Report.

Use of company information (s145)

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 (s161)

During the year, the Board authorised an increase in the base remuneration of C A McKenzie by $20,000 per annum with the increase to take effect from 1 July 2014.

Indemnity and Insurance (s162)

During the year, the Company effected directors' and officers' liability insurance to cover, to the extent normally covered by such policies, the risks arising out of the acts or omissions of the Directors and employees of the Company and its subsidiaries in their capacity as such for the period from 1 July 2014 to 30 June 2015. The cost of this cover is $22,280.

INTERESTS REGISTER (continued)

Share dealing (s148)

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

Directors' relevant interests in shares in the Company as at 30 June 2014 were[1]:

G C W Biel	
Beneficial	–
Other	8,467,642
G S Hawkins	
Beneficial	10,250 [2]
Other	–
S E F Haydon	
Beneficial	10,000
Other	–
A M James	
Beneficial	373,045 [2]
Other	–

Directors' relevant interests in rights under the Cavalier Corporation Limited 2000 Executive Share Rights Plan [3] as at 30 June 2014 were:

C A McKenzie	
Beneficial	150,000
Other	–

No share rights were issued pursuant to the terms of the Plan during the year.

[1] K L Thorpe, who retired from the Board on 13 December 2013, had a beneficial relevant interest in 21,000 ordinary shares in the Company as at 30 June 2014.

[2] Includes those held by trusts of which the Director is a beneficiary.

[3] A summary of the terms of the Plan is set out on pages 57 to 60 the Annual Report (note 18 of the Notes to the Financial Statements).

Specific disclosures of interest (s140(1))

No specific disclosures of interest were received during the year.

DISCLOSURES UNDER THE COMPANIES ACT 1993 (continued)

Year ended 30 June 2014

INTERESTS REGISTER (continued)

General disclosures of interest (s140(2))

General disclosures of interest that have been received and are still current:

G C W Biel	Director of: Auckland Air Charter Limited Auckland Jet Centre Limited Heli Harvest Limited International Helicopter Leasing Limited Westburn Investments Limited Director and shareholder of: Bay Cliffe Industries Limited Baycliffe Enterprises Limited Bondworth Carpets Limited Heli Harvest Management Limited Rural Aviation (1963) Limited
G D Edmond	Director of: alphaXRT Limited Specsavers New Zealand Limited Chair and Trustee of CHT Healthcare Trust Director and shareholder of Galligaskin Management Limited Trustee of: Edmond Asset Trust Edmond Investment Trust
G S Hawkins	Director of: Ports of Auckland Limited Southern Cross Health Trust Southern Cross Medical Care Society Director and shareholder of: Hawkins Consulting Services Limited Ignition Development Limited Stableburn Farms Limited Trustee of Hawkins Family Trust
S E F Haydon	Director of The Institute of Geological and Nuclear Sciences Limited Council Member of Unitec Institute of Technology Chair of New Zealand Riding for the Disabled Association Executive Committee Member of Waste Disposal Services Associate of: The Boardroom Practice Limited Dial-a-CFO Trustee of R&E Seelye Trust

INTERESTS REGISTER (continued)

General disclosures of interest (continued)

A M James	None
C A McKenzie[1]	Chair of Cavalier Wool Holdings Limited Director of: Cavalier Woolscourers Limited Hawkes Bay Woolscourers Limited Canterbury Woolscourers Limited Woolscouring Enterprises (2003) Limited Lanolin Trading Company Limited

[1] Excludes directorships of subsidiaries of the Group which are set out on page 99.

DIRECTORS' REMUNERATION (s211(1)(f))

The total remuneration and value of other benefits earned (received, and due and receivable) by each of the Directors of the Company for the year ended 30 June 2014 were:

	2014	2013
G C W Biel	**$48,000**	$48,000
W K Chung[1]	**–**	$24,666
G D Edmond[2]	**$20,000**	–
G S Hawkins	**$54,000**	$54,000
S E F Haydon[3]	**$48,000**	$42,323
A M James	**$96,000**	$96,000
C A McKenzie[4]	**$512,457**	$526,521
K L Thorpe[5]	**$56,667**	$48,000

[1] W K Chung retired from the Board on 16 November 2012. The amount that was paid to him in 2013 includes $6,533 of consultancy fees.

[2] G D Edmond was appointed to the Board on 1 February 2014.

[3] S E F Haydon was appointed to the Board on 14 August 2012.

[4] Total remuneration and value of other benefits earned as an employee.

[5] K L Thorpe retired from the Board on 13 December 2013. The amount that was paid to him in 2014 includes a retiring allowance of $35,000.

DISCLOSURES UNDER THE COMPANIES ACT 1993 (continued)

Year ended 30 June 2014

EMPLOYEES' REMUNERATION (s211(1)(g))

The number of employees of the Company and its subsidiaries (excluding employees holding office as directors of the Company, but including other employees holding office as directors of subsidiaries) whose remuneration and value of other benefits for the year ended 30 June 2014 fall into the various brackets specified by the Companies Act 1993 is as follows:

	NUMBER OF EMPLOYEES	
Remuneration and value of other benefits ($)[1]	**2014**	2013
100,000 – 109,999	**33**	25
110,000 – 119,999	**25**	18
120,000 – 129,999	**15**	13
130,000 – 139,999	**12**	25
140,000 – 149,999	**8**	11
150,000 – 159,999	**5**	4
160,000 – 169,999	**4**	5
170,000 – 179,999	**1**	1
180,000 – 189,999	**4**	2
190,000 – 199,999	**2**	3
200,000 – 209,999	**1**	6
210,000 – 219,999	**1**	–
220,000 – 229,999	**3**	2
230,000 – 239,999	**1**	5
240,000 – 249,999	**–**	–
250,000 – 259,999	**2**	1
260,000 – 269,999	**–**	–
270,000 – 279,999	**–**	–
280,000 – 289,999	**–**	–
290,000 – 299,999	**1**	1
300,000 – 309,999	**–**	–
310,000 – 319,999	**–**	1
320,000 – 329,999	**1**	–
330,000 – 339,999	**1**	1
340,000 – 349,999	**–**	2
350,000 – 359,999	**–**	–
360,000 – 369,999	**1**	–
370,000 – 379,999	**–**	–
380,000 – 389,999	**1**	–
1,030,000 – 1,039,999	**–**	1
Total number of employees	**122**	127

[1] Includes retiring allowances and other entitlements paid on retirement (for example, long service leave and holiday pay accrued).

DONATIONS (s211(1)(h), s211(2))

Refer to page 43 of the Annual Report (note 5 of the Notes to the Financial Statements).

AUDIT FEES (s211(1)(j), s211(2))

Refer to page 43 of the Annual Report (note 5 of the Notes to the Financial Statements).

SUBSIDIARY COMPANY DIRECTORS (s211(2))

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

Subsidiaries	Directors
Cavalier Bremworth Limited	P J Alston
Knightsbridge Carpets Limited	C A McKenzie
Cavalier Spinners 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	
EnCasa Carpets Limited	
Microbial Technologies Limited	
Northern Prospecting Limited	
Radford Yarn Technologies Limited	
Cavalier Holdings (Australia) Pty. Limited	P J Alston
Cavalier Bremworth Pty. Limited	C A Howitt
Kimberley Carpets Pty. Limited	C A McKenzie
Norman Ellison Carpets Pty. Limited	
Cavalier Bremworth (Australia) Limited	
Ontera Modular Carpets Pty. Limited	P J Alston
Ontera Modular Carpets Limited	D M Harriott (appointed during the year)
	C A McKenzie
	D Rowlinson (resigned during the year)
Norman Ellison Carpets Limited	P J Alston
Carpet Distributors Limited	C A McKenzie
Horizon Yarns Limited	W B Norman
NEC Limited	

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

The details of entries in the interests register and the remuneration and value of other benefits of subsidiary company directors who are also Directors of the Company are set out on pages 94 to 97.

There were no entries in the interests register in respect of any of the subsidiary company directors who are not also Directors of the Company. The remuneration and value of other benefits of these directors is disclosed under employees' remuneration on page 98.

DISCLOSURES UNDER THE NEW ZEALAND EXCHANGE MAIN BOARD LISTING RULES

As at 31 July 2014

ANALYSIS OF SHAREHOLDINGS (LISTING RULE 10.4.5)

	Number of Shareholders	%	Shares Held	%
Size of shareholdings				
Up to 199	106	2.28	9,029	0.01
200 – 499	165	3.55	56,710	0.08
500 – 999	289	6.22	205,585	0.30
1,000 – 1,999	790	17.00	1,099,185	1.60
2,000 – 4,999	1,405	30.23	4,370,087	6.36
5,000 – 9,999	900	19.37	6,038,831	8.79
10,000 – 49,999	886	19.07	15,776,798	22.97
50,000 – 99,999	59	1.27	3,803,569	5.54
Over 99,999	47	1.01	37,319,304	54.35
	4,647	100.00	68,679,098	100.00
Location of shareholders				
New Zealand	4,511	97.07	67,215,744	97.87
Overseas – Australia	72	1.55	942,198	1.37
– Others	64	1.38	521,156	0.76
	4,647	100.00	68,679,098	100.00

	Shares Held	%
Top 20 shareholders		
Chippendale Holdings Limited	9,174,312	13.36
Rural Aviation (1963) Limited	8,467,642	12.33
New Zealand Central Securities Depository Limited	5,755,643	8.38
Superlife Trustee Nominees Limited (SL NZ A/c)	2,352,547	3.43
Warwick Bruce Norman, Averil Rosemary Norman and Norman Trust Limited	1,100,000	1.60
Masfen Securities Limited	787,500	1.15
Custodial Services Limited (A/c 3)	750,978	1.09
Forsyth Barr Custodians Limited (1-33)	739,567	1.08
Geoffrey Thomas Charles Harnden	485,318	0.71
Anthony Charles Timpson	420,732	0.61
Custodial Services Limited (A/c 4)	419,945	0.61
FNZ Custodians Limited	400,703	0.58
Graham James Munro and Zita Lillian Munro	400,000	0.58
Alan Michael James and Ann White James (JWJ Super Fund)	373,045	0.54
Forsyth Barr Custodians Limited (1-17.5)	327,274	0.48
Custodial Services Limited (A/c 2)	319,720	0.47
J & D Sands Limited	250,000	0.36
Nicolaas Johannes Kaptein	250,000	0.36
Mary Dorcas Spackman	250,000	0.36
David Michael Cotton and Susan Lea Cotton	225,001	0.33
	33,249,927	48.41

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 July 2014 were:

	Shares Held	%
Accident Compensation Corporation	4,685,903	6.82
Citibank Nominees (New Zealand) Limited	540,417	0.79
Mint Nominees Limited	314,872	0.46
National Nominees New Zealand Limited	130,657	0.19
Private Nominees Limited	42,580	0.06
Courtenay Nominees Limited	21,000	0.03
HSBC Nominees (New Zealand) Limited A/c State Street	19,503	0.03
BNP Paribas Nominees (NZ) Limited	700	0.00
JP Morgan Chase Bank NA – Segregated Clients A/c	11	0.00
	5,755,643	8.38

DIRECTORS' AND ASSOCIATED PERSONS' SHAREHOLDINGS

	30 JUNE 2014	
	Beneficial	Non-Beneficial
Shares [1]		
G C W Biel	–	8,528,762 [3]
G S Hawkins	10,250 [4]	–
S E F Haydon	10,000	–
A M James	373,045 [4]	–
Rights under the Cavalier Corporation 2000 Executive Share Rights Plan [2]		
C A McKenzie	150,000	–

[1] K L Thorpe, who retired from the Board on 13 December 2013, had a beneficial relevant interest in 21,000 shares in the Company as at 30 June 2014.

[2] A summary of the terms of the Plan is set out on pages 57 to 60 of the Annual Report (note 18 of the Notes to the Financial Statements).

[3] Includes 61,120 held by associated persons.

[4] Includes those held by trusts of which the Director is a beneficiary.

DISCLOSURES UNDER THE NEW ZEALAND EXCHANGE MAIN BOARD LISTING RULES (continued)

DIVERSITY POLICY (LISTING RULE 10.4.5)

The Company does not have a formal diversity policy.

However, the Company acknowledges the significant benefits diversity in the workplace brings to the Group – particularly in the form of the additional and broader perspectives in approach, leadership and problem-solving – and therefore encourages diversity at all levels of the Group.

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

	30 JUNE 2014			30 JUNE 2013		
	Male	Female	Total	Male	Female	Total
Board of Directors	**5/83%**	**1/17%**	**6/100%**	5/83%	1/17%	6/100%
Officers [1]	**4/100%**	**–**	**4/100%**	5/100%	–	5/100%
Direct reports of officers	**16/76%**	**5/24%**	**21/100%**	18/82%	4/18%	22/100%

[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.

DISCLOSURES UNDER THE SECURITIES MARKETS ACT 1988

As at 31 July 2014

SUBSTANTIAL SECURITY HOLDERS (s35F)

The substantial security holders of 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
G C W Biel	8,467,642
Chippendale Holdings Limited	8,886,490
Rural Aviation (1963) Limited	8,467,642
Tony Timpson Family Trust	8,902,164
Accident Compensation Corporation	4,642,261

The total number of ordinary shares, being the only class of listed voting securities in the Company, as at 31 July 2014 was 68,679,098.

The definition of the term "relevant interest" in the Securities Markets Act 1988 is extremely wide, and more than one relevant interest can exist in the same voting securities.

CORPORATE DIRECTORY

BOARD OF DIRECTORS:

G C W Biel B.E. (Mech.) *Non-executive, Non-independent*	Deputy Chair of the Board Member of Audit, Remuneration and Nomination Committees
G D Edmond BCA (Hons.) *Non-executive, Independent*	Member of Audit, Remuneration and Nomination Committees
G S Hawkins B.Sc., B.Com., ACA, DistFInstD *Non-executive, Independent*	Chair of Audit Committee Member of Remuneration and Nomination Committees
S E F Haydon B.Sc., ACA, MInstD *Non-executive, Independent*	Member of Audit, Remuneration and Nomination Committees
A M James B.Tech. (Hons.), Dip.Bus.Admin. *Non-executive, Independent*	Chair of the Board Chair of Remuneration and Nomination Committees Member of Audit Committee
C A McKenzie Dip.Wool&WoolTech., MInstD	Managing Director and Chief Executive Officer

CHIEF FINANCIAL OFFICER:

P J Alston BBS, CA

COMPANY SECRETARY:

V T S Tan CA, FCIS

FOUNDING SHAREHOLDER:

The late **A C Timpson** ONZM

REGISTERED OFFICE:

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

SHARE REGISTRAR:

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

AUDITORS:

KPMG

LEGAL ADVISORS:

Russell McVeagh

BANKERS:

Bank of New Zealand

National Australia Bank Limited

CORPORATE DIRECTORY (continued)

CORPORATE:

Managing Director & Chief Executive Officer	C A McKenzie
Chief Financial Officer	P J Alston
Company Secretary	V T S Tan
Group Financial Controller	L M Arbuckle
Group Information Services Manager	T D Jones

CARPET OPERATIONS:

Cavalier Carpets:

Chief Executive Officer	B L Wollaston

Ontera Modular Carpets:

Chief Executive Officer	D M Harriott

YARN OPERATION:

Radford Yarn Technologies:

General Manager	E C Radford

WOOL OPERATIONS:

Elco Direct:

General Manager	R P Cooper

Cavalier Wool Holdings:

Chief Executive Officer	N R Hales

WEBSITES:

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

SANDPIPER

One of two new additions to Cavalier Bremworth's Habitat Collection. Sandpiper is unique for its subtle pin-stripe effect, while Woodgrain is a textured cut and loop pile with a very distinctive pattern.

CAVALIER
CORPORATION

2013/14 ANNUAL REPORT CAVALIER CORPORATION LIMITED