ANNUAL REPORT 2020

# Bremworth

CAVALIER
CORPORATION

Contents



This Annual Report is dated 20 November 2020 and is signed on behalf of the Board of Directors by:

**George Adams**
Chairman

**Paul Alston**
Chief Executive Officer



# CHANGE FEELS GOOD.

WE'RE ON A MISSION TO DELIVER A RANGE OF HOME EXPERIENCES BUILT WITH PEOPLE, THE PLANET AND GROWTH IN MIND. TO NOT JUST MOVE WITH WHERE THE WORLD'S HEADED BUT LEAD THE WAY.

TO DEVELOP NEW IDEAS, TO INNOVATE AND EVOLVE AS A NEW BREED OF BUSINESS. BECAUSE THE CHANGES WE MAKE TODAY WILL PREPARE US FOR THE FUTURE.

Bremworth

# 1 ABOUT

# OUR VISION

## OUR VISION IS TO BECOME A GLOBAL LEADER IN DESIGNING AND CREATING DESIRABLE, SAFE, SUSTAINABLE AND HIGH PERFORMING NATURAL INTERIOR SOLUTIONS.

## WE'RE CHANGING TO BECOME A PURPOSE-LED BUSINESS.

We aim to incorporate eco-conscious practices into everything we do. This ethos will help us to ensure our products are as natural as they can be, to reduce our impact on the environment in every way we can.

## WE'RE CHANGING TO BECOME A DESIGN-LED BUSINESS.

True innovation starts with listening to, and learning from end users so that we can keep in step with consumer trends and solve real world problems. Our design-led thinking approach will inform and guide our innovation programme to ensure our ideas are desirable, long lasting solutions.

## BRAND ARCHITECTURE

### OUR WHY?

We believe that by embracing nature we can make a genuine difference to the wellbeing of people and the planet and deliver the design and performance attributes customers care about.

### OUR HOW?

We will inspire a lifelong passion for natural materials in our customers' daily lives by using design-led thinking, science and innovation to explore possibilities, create new categories and enrich customers' lives.

### OUR WHAT?

We make beautifully designed, high performing interior products for customers to love, with our choice of natural materials being both safe and sustainable.

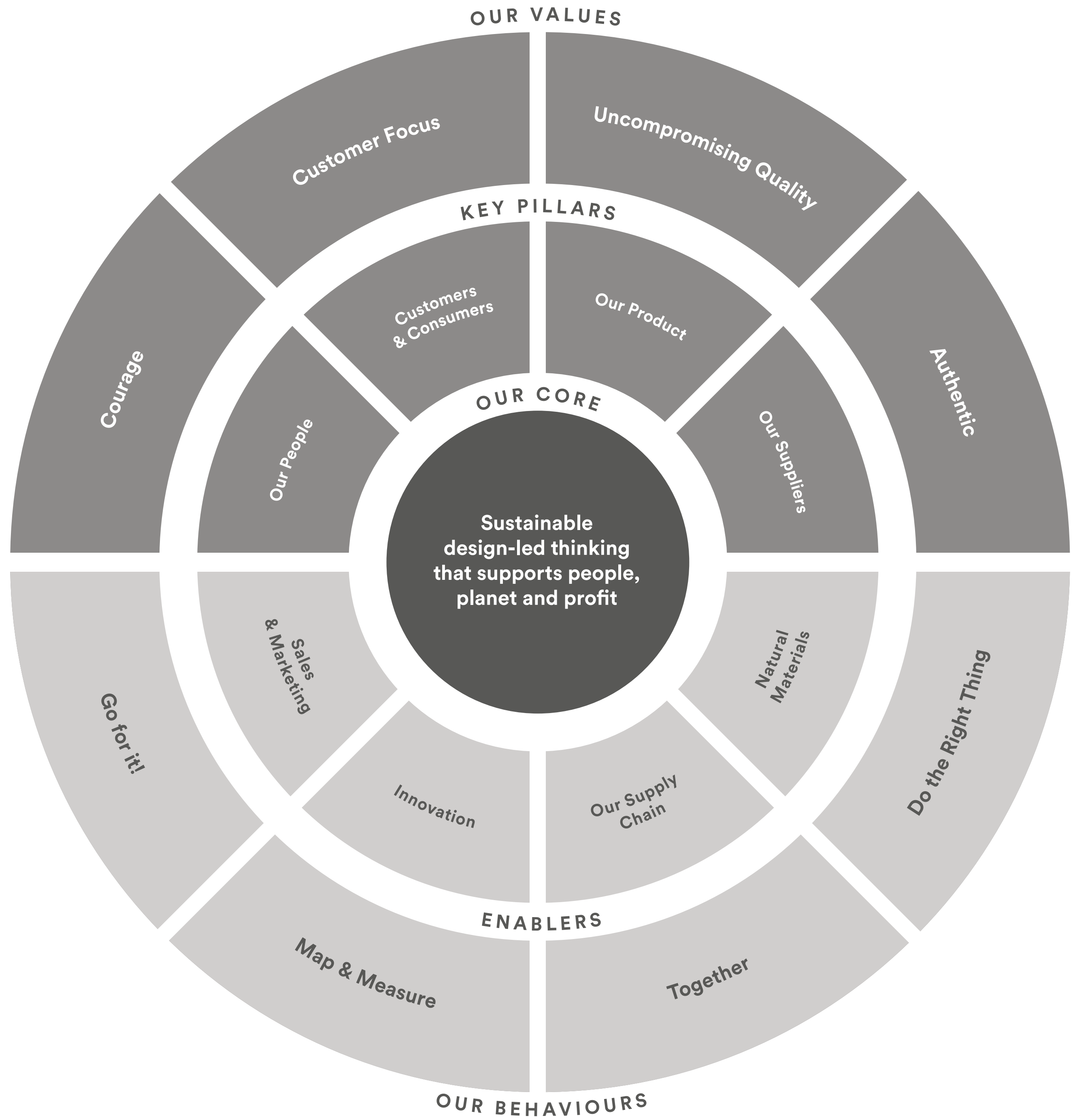


# OUR STRATEGY

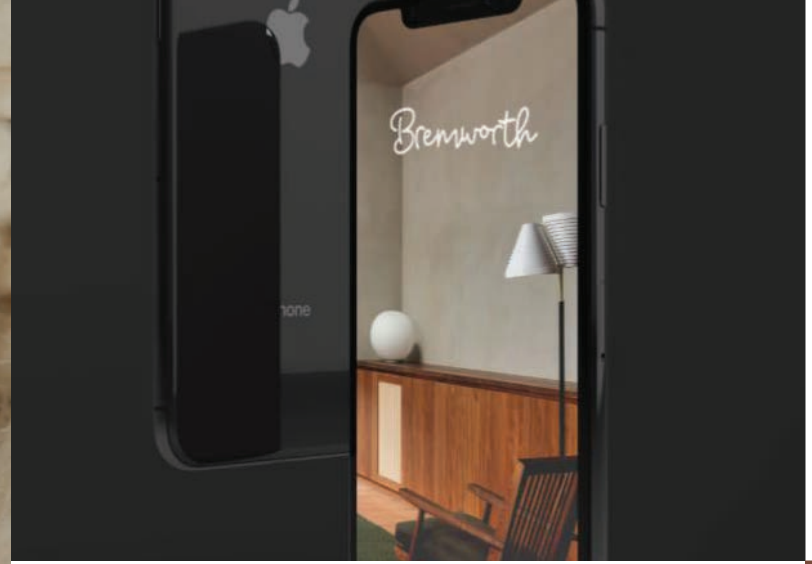
At its core, our business strategy is geared to create a sustainable, profitable and design-led organisation, with a purpose of finding a more natural way.

A network of relationships exists between us, our customers and the end consumer, supported by our supply partnerships and the products we create.

Our shared values serve to unify these elements across the entire Bremworth business.



## OUR NEW BRAND IDENTITY


## OUR WORDMARK

Our transformation story is signalled with a more contemporary brand identity that reflects our constant desire to change and improve. Our modern, handwritten wordmark is instinctually positive, human and universally appealing. Its scripted style is relaxed and organic; as if born from wool itself.

## OUR SYMBOL

The new design toolbox includes an aspirational wool symbol designed to elevate perceptions of the brand into a new kind of 'eco-premium' positioning. A likeable and engaging graphical device; this symbol is a brand certifier and signifier of quality that builds on our origins and natural material stories.

# OUR GROWTH STRATEGY

## GROW THE WOOL FLOORING MARKET

We will embrace design to lead a movement that elevates the role of wool carpets and rugs within interior spaces and promotes the true worth, performance and sustainability benefits of natural materials so consumers can make better informed decisions.


## EXPAND OUR PRESENCE

We will nurture existing relationships, grow our channels to market and expand our influencer and distribution networks. We will introduce new ranges to make our products more accessible for more customers.


## GROW OUR SHARE OF THE MARKET

We will position Bremworth as the preferred choice for all homes through marketing and promotion that uses our new, inspirational and differentiated visual language to build awareness and connect with customers.


## INNOVATION AND FUTURE THINKING

We will seek out adjacent opportunities to grow our business and its value. We will collaborate with like minded individuals and organisations and use science, design and innovation to create new product categories and differentiated positionings.

# FY20
# YEAR IN REVIEW

### OPERATING ENVIRONMENT

Softening trading conditions encountered in 1H20 which were further exacerbated by COVID-19 in 2H20.

### REVENUE

**$118m**

Down 13% on prior year, due to softer trading conditions reported in 1H20 and impact of COVID-19 lockdown and restrictions, particularly in New Zealand, in April

### NLAT

**$(21.5)m**

### NLAT (NORMALISED)[1]

**$(3.5)m**

Excluding non-trading adjustments

### EBITDA

**$(8.9)m**

### EBITDA (NORMALISED)[1]

**$2.3m**

Excluding non-trading adjustments of $(11.2) million pre-tax, primarily related to the strategic change and Company re-set

### NET DEBT

**$14.5m**

As at end of June, down from $17.8 million a year ago

### ORGANISATIONAL STRUCTURE

Positive impact from the move in April 2019 to a more customer focused organisational structure in Australia

### COVID-19

Alert Level 4 lockdown and consequent restrictions on the business adversely impacted FY20 financial performance, but with stronger than anticipated sales performance post lockdown

1. Normalised is a non-GAAP measure of financial performance and therefore falls within the Financial Markets Authority's guidance note on "Disclosing non-GAAP financial information". Normalised results are not audited and exclude items that are not expected to occur on a regular basis either by virtue of quantum or nature. Full commentary on the disclosure of non-GAAP financial information and a reconciliation from the non-GAAP financial information to the most directly comparable GAAP financial information, including that for the previous period, can be found on pages 114 and 115.



# POST-PERIOD END

### NEW TRANSFORMATIONAL STRATEGY

Completion of Cavalier's strategic review and unveiling of the new transformational strategy to become a sustainable, interior solutions business.

### NEW BRAND IDENTITY

Launch of a more contemporary brand identity to signal our future transformation story while also acknowledging our heritage.

### EXIT FROM SYNTHETIC

Well-advanced, with both the New Zealand and Australian sales teams able to start focusing on growing woollen carpet sales.

### EXPANDED OUR REACH

Through the roll out of the Lifestyle Collection currently underway, we have expanded our reach across Australasia to make our products more accessible to the market.

### NEW PRODUCTS LAUNCHED

Three new limited-edition colours into Galet the gorgeous chunky loop pile within the Bremworth Collection and the entirely new texture-rich range Ripples into our Aspire Collection.

### SALE AND LEASEBACK OF AUCKLAND PROPERTY

With settlement of the sale and leaseback of the Auckland property expected no later than the end of January 2021, proceeds of sale will allow Cavalier to fully repay bank debt and leave it with the cash resources to execute its new strategy.

### FY21 Q1

Carpet sales volumes stronger than anticipated, with the business cautiously optimistic about prospects for FY21 as it executes the transformation and reinvests for the future.

# CHAIRMAN & CHIEF EXECUTIVE OFFICER'S REPORT

*Top*
**George Adams**
Chairman

*Bottom*
**Paul Alston**
Chief Executive Officer

> **"OVER THE NEXT 10 YEARS, OUR VISION IS TO BECOME A GLOBAL LEADER IN DESIGNING AND CREATING DESIRABLE, SAFE, SUSTAINABLE AND HIGH PERFORMING NATURAL INTERIOR SOLUTIONS."**

2020 will be remembered for how people, communities and businesses responded to the challenges of COVID-19. The announcement of our new strategy in July 2020 was the result of 18 months of challenging, refining and testing our new strategic direction. This was followed by the launch of *Bremworth* our new contemporary brand identity in November 2020.

Over the next 10 years, our vision is to become a global leader in designing and creating desirable, safe, sustainable and high performing natural interior solutions.

### OUR GROWTH STRATEGY

Within our existing product categories, we will grow the wool flooring market, build demand for our woollen carpets and rugs, and strengthen our presence in retail channels through expanded distribution to make our products accessible to consumers.

But the real growth opportunity is to become market shapers in home interior solutions, placing end users and influencers at our core and wrapping our value chain around their human needs. From this approach, we aim to see the future first and identify new opportunities, disrupt markets, and create entirely new product categories.

It is this last pathway which firmly sets us on a different journey from the past, while still building on our heritage, expertise and the quality craftsmanship that have made us one of New Zealand's most trusted brands.

### OUR RESPONSE TO COVID-19

As we started 2020, little did we know that a global pandemic was quickly going to spread around the world and materially impact our business and our people. The health and welfare of our staff quickly became our primary focus, and we formulated a comprehensive plan to protect our staff while continuing to operate our business.

During the New Zealand lockdown from late March to late April 2020, all our sites were closed under level 4, re-opening under Level 3 using 'bubble shifts' where shift teams were completely separated from each other. This ensured that if one member in a team became ill, the second 'bubble' was protected and could keep working safely.

In addition to this, the Company also created an app to support the physical and mental wellbeing of our people. Pleasingly, our staff adapted well to the changing environment and engaged readily in optimising our new mode of operating.

While B2B and E-Commerce remained open, retail sales in New Zealand effectively ceased during this time. Cost measures and other actions were taken to protect the business, but all salaried and waged staff continued to be paid throughout the lockdown period with support from the Government's wage subsidy.

Trading activity has been stronger than expected since emerging from the first lockdown, however, the Board remains cautious about the ongoing impact of COVID-19 with various additional restrictions in Auckland and in Victoria, Australia.

On behalf of the Board and management team, we would like to acknowledge and thank all our people for their support and efforts, both during the lockdown and as we scaled up activity to meet pent up demand post lockdown. Many of our employees have been with the Company for decades and are truly part of the Bremworth family.

## FY20 FINANCIAL PERFORMANCE

Our FY20 financial results were reflective of the softening trading conditions noted in the first half of the year, which were further exacerbated by the COVID-19 pandemic in 2H20; as well as the re-setting of the Company as we commenced our transformation.

Revenue of $118.0m was down 13% on prior year, with sales reduced significantly in April and May (compared to the same months in the prior year) as a result of the COVID-19 lockdown. The revenue impact was mainly felt in New Zealand where annual sales volumes were down 17% on the prior year, with Australia finishing the year down just 5%.

Since emerging from the lockdown, sales volumes have been stronger than initially anticipated. Partly, this has been led by pent up demand and consumers spending money on their homes in lieu of other discretionary spends, as well as sales of synthetic carpets with retailers stocking up ahead of the Company's transition away from these fibres.

Normalised earnings before interest, tax, depreciation and amortisation (EBITDA) was $2.3m, excluding non-trading adjustments of $(11.2)m pre-tax which were primarily related to the Company's strategic transformation and re-set. These are non-cash adjustments and have no effect on the underlying operations or trading of the business.

While some operating expenses were able to be reduced during the lockdown period, the Company has a number of fixed costs which were still incurred during this time. The business was able to continue paying all salaried and waged staff throughout the lockdown period, supported by the Government's wage subsidy of which 46% of the $2.8m claimed was recognised in the FY20 results. The remaining $1.5m will be recognised in FY21.

Operating cash flows were strong at $6.8m, mainly due to the release of cash as the Company commenced its transition away from synthetics and ceased buying synthetic yarn inventory.

We reported a statutory net loss after tax (NLAT) of $(21.5)m with profitability impacted by the COVID-19 lockdown, particularly in April and May. Excluding the non-cash, non-trading adjustments and derecognition of deferred tax assets, the normalised NLAT was $(3.5)m.

As part of the transformation, there is a challenge with impairment assumptions especially with a market capitalisation considerably less than the net asset value of the Company. Directors agreed to take the conservative position of writing-down assets (including deferred tax assets) as the transformation changes the risk profile of the Company and returning to acceptable profitability is a few years away.

Net debt reduced to $14.5m as at 30 June 2020 and further reduced to $1.4m as at end-October 2020 due to stronger than expected trading in the new financial year and the accelerated sell down of remaining synthetic stocks.

## OUTLOOK

While we have sufficient bank facility headroom in the near term to continue the execution of our strategy, the settlement of the sale and leaseback of the Auckland property no later than the end of January 2021 will provide us with additional support and funding to execute the new strategy.

The outlook for the economy remains uncertain but all indications are that there will be a downturn in the near term as a result of COVID-19. We believe the work we are doing to reposition the Company will allow us to navigate this environment and build on the consumer trends we are seeing in the marketplace to deliver value for our shareholders.

Stronger than anticipated trading has continued into the first quarter of FY21, with New Zealand sales revenues up approximately 11% and Australia down just 3% on the previous year. Increases in woollen carpet sales have been encouraging, especially in Australia.

As previously advised, total sales revenue for FY21 is expected to reduce as we exit our synthetic carpet business, and as a consequence of COVID-19. Investment costs will be incurred as the Company's manufacturing and sales base is re-set to reflect the new sales focus; and marketing spend and people costs will increase significantly to support the new strategic direction and enhance Bremworth's market presence.

From FY23 onwards, we expect growing revenues as new sales replace and eclipse the previous synthetic carpet sales and as the economy recovers from COVID-19; with the full benefits of the transformation expected from FY25 onwards.

Our directors, our management team and our people are passionate about the Company and what it stands for and excited about the new strategic direction it has taken. We are at a defining moment in our history and, while our transformation will take time and investment, we believe the time is right to be doing just that and to secure the future of our Company.

We thank shareholders for your continued support.

**George Adams**
Chairman

**Paul Alston**
Chief Executive Officer

# OUR UNIFYING VALUES

**Courage.**
Bravery is about taking the lead and not accepting the status quo. It's about constantly searching for better solutions, new ideas and creative possibilities. We accept that we won't always get it right, but a courageous mindset allows us to adapt faster and find the momentum we need to push hard into the future.

**Customer Focus.**
The extra mile comes as standard and there are no shortcuts in our new ways of working. We aim to see the future first, and through our purpose-driven and design-led processes we'll seek to create value for our customers to enhance their lives.

**Uncompromising Quality.**
We are dedicated to the pursuit of uncompromising quality in everything we produce, working to a universally accepted set of standards, that we measure ourselves by. The true worth of our relationships and the products we put into the world will be measured in the endless pleasure they bring.

**Authentic.**
Honesty and authenticity underpin everything we say, all that we do and how we will do it. We are not perfect, but we're working to become better. We will share our story and journey in interesting ways that inspire others to walk the talk together with us.

COURAGE
CUSTOMER FOCUS
UNCOMPROMISING QUALITY
AUTHENTIC



# OUR PEOPLE

"OUR NEW DESIGN-LED THINKING PROCESS WILL HELP US TO INTRICATELY GET TO KNOW OUR CUSTOMERS AND INFORM THE DESIGN OF OUR PRODUCTS"

We are a diverse team of passionate individuals who believe that if we embrace nature, we can truly make a difference in the world, without compromising on the design and performance attributes our customers care about.

Our new design-led approach will help us to understand our customer's needs intimately, and inform the end-design of our products, including our systems, our procedures and the overall customer experience we deliver.

To support this transformation, we are investing in leadership capability, diversity and the safety and support of our people.

An important step is the establishment of a new sustainability division to ensure we have the right skills to inform our sustainability program. We are engaging with external experts to assist with any new specialised activity.

We have also invested in new capability with a fresh approach to Health & Safety designed to further promote staff engagement.

An open dialogue approach has resulted in a stronger, more united voice that encourages greater ownership of our Health and Safety programme and is improving the way we manage our most critical tasks.

# OUR SUSTAINABLE FUTURE

**WE ARE CHANGING THE WAY WE DO BUSINESS. NOT JUST BECAUSE OUR CUSTOMERS ARE BECOMING INCREASINGLY AWARE OF THE IMPACT THEIR DECISIONS HAVE ON THE ENVIRONMENT, BUT BECAUSE IT'S THE RIGHT THING TO DO.**

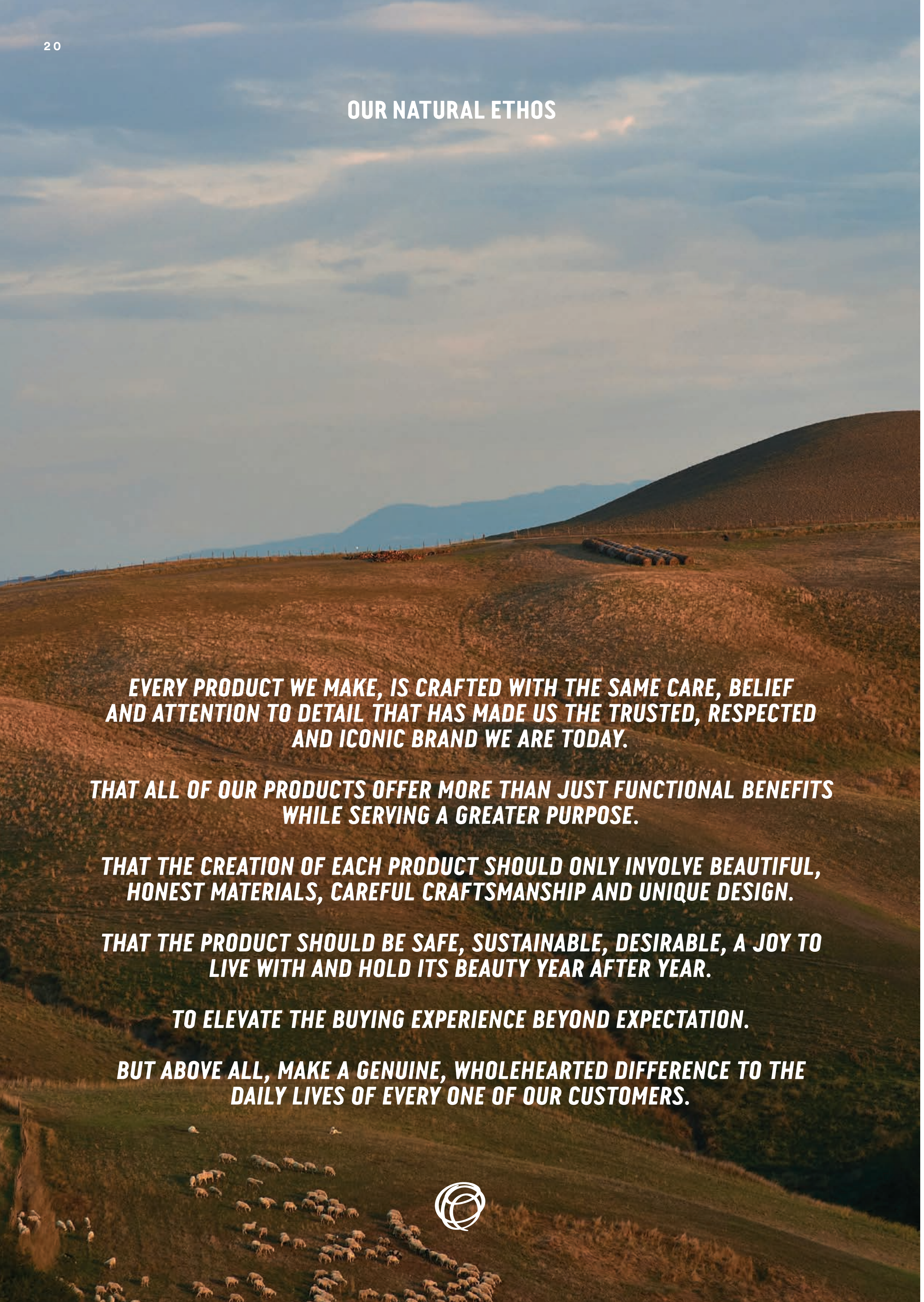
In line with our belief that stopping plastic production at its source is best practice, we are exiting the manufacture of plastic carpet for good. This is the first step we're taking, as we transition towards becoming a more sustainable company and progressive brand.

We have a long-term view of the challenges ahead, where solutions are not always obvious so investment in scientific research is required, particularly in the innovation space.

Our next step is to define our baseline range to inform distinct work streams and our future milestones.

Right now, we are actively removing single-use plastics from the business.

A recent initiative at our Napier Plant resulted in a large reduction in shrink wrap use at this plant and less to be disposed of in our Auckland plant is one such example. We have further waste reduction and recycling projects in the pipeline, to push our change agenda even further.



## OUR NATURAL ETHOS

*EVERY PRODUCT WE MAKE, IS CRAFTED WITH THE SAME CARE, BELIEF AND ATTENTION TO DETAIL THAT HAS MADE US THE TRUSTED, RESPECTED AND ICONIC BRAND WE ARE TODAY.*

*THAT ALL OF OUR PRODUCTS OFFER MORE THAN JUST FUNCTIONAL BENEFITS WHILE SERVING A GREATER PURPOSE.*

*THAT THE CREATION OF EACH PRODUCT SHOULD ONLY INVOLVE BEAUTIFUL, HONEST MATERIALS, CAREFUL CRAFTSMANSHIP AND UNIQUE DESIGN.*

*THAT THE PRODUCT SHOULD BE SAFE, SUSTAINABLE, DESIRABLE, A JOY TO LIVE WITH AND HOLD ITS BEAUTY YEAR AFTER YEAR.*

*TO ELEVATE THE BUYING EXPERIENCE BEYOND EXPECTATION.*

*BUT ABOVE ALL, MAKE A GENUINE, WHOLEHEARTED DIFFERENCE TO THE DAILY LIVES OF EVERY ONE OF OUR CUSTOMERS.*



## OUR ALIGNMENT WITH NATURE

**2.5m**

**Reduction (kg) in synthetic fibre consumption per annum**

**87%**[1]

**Average % of natural materials in 100% wool carpets.**

### ALIGNING OUR BUSINESS WITH OUR CORE VALUES AND BELIEFS SHOWS THE WORLD WHERE WE COME FROM WITH OUR NATURAL, SUSTAINABLE AND PURE NEW ZEALAND WOOL.

What we now know about microplastics, gives us the chance to lead by example, by exiting synthetic carpet production in favour of high-performing, natural fibres.

We've reduced our contribution to the worldwide plastic problem by 2.5 million kgs per annum.

That's equal to six Olympic pools full of synthetic fibre stopped at source every year.

On average, our 100% wool carpets are made with 87% natural materials.[1]

Whilst this is a great starting point, we want to do better than that so we are seeking new ways to reduce, recycle and eventually remove plastic from our products, our business and our daily lives where possible.

### AVERAGE % OF NATURAL MATERIALS IN BREMWORTH 100% WOOL CARPET

**13%** Man-made materials

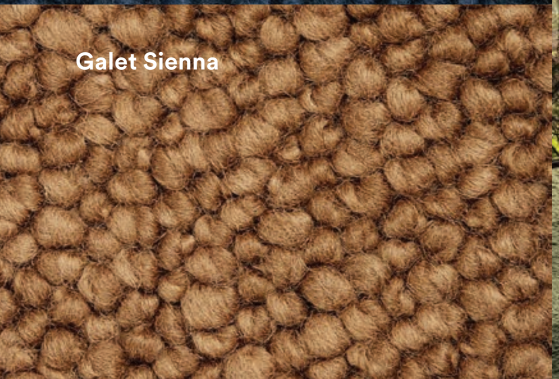
**87%** Natural materials


1. This is an approximate for a middle of the range 100% Bremworth wool carpet and varies depending on the specification of the product

# NEW COLOURS *GALET*

Galet Sage

Galet Indigo



Galet Sienna



## ◀ GALET

Galet is a gorgeous chunky loop pile made from 100% felted New Zealand wool. The random loop pile combined with the unique yarn structure creates textural interest on the floor and unbelievable softness underfoot.

## RIPPLES ▶

Ripples brings a natural approach indoors to inspire a pursuit of happiness with its warm array of colours. The texture-rich patterns and use of felted wool provides soft and luxurious carpet for your home.

# NEW PRODUCT *RIPPLES*

# OUR SUPPLIERS

**We believe** an interior product must be 4 things and we aim to partner with suppliers who share these same values and beliefs:

***SAFE***
***SUSTAINABLE***
***DESIRABLE***
***HIGH PERFORMING***

**We are** exploring how we can continually improve and decrease our environmental impact. This will be achieved by focusing on our supply chain, and investing in targeted research.

**We aim** to source from local suppliers where possible.

# OUR CUSTOMERS & CONSUMERS

**We will** intricately get to know our customers, their challenges and what they care about.

**We will** wrap our value chain around the needs and values of our customers and end users, to deliver and delight at every touch point of the customer experience.

**We aim** to see the future first to deliver inspiring and innovative product solutions for our customers.

# BOARD OF DIRECTORS

## T H G (GEORGE) ADAMS

DipFSA(Hons), FCA, CFInstD

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

He was appointed Chair of the Board in July 2020, having served as Deputy Chair of the Board since April 2019.

George was also appointed Chair of the Board's Nomination Committee in July 2020 and is a member of the Board's Audit and Remuneration Committees.

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

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

He is currently Chair of Apollo Foods Limited, Insightful Mobility Limited, Mix Limited, Netlogix Group Holdings Limited, Competenz, The Business Leaders Health and Safety Forum and the Work Related Health Advisory Board, as well as a director of Arborgen Holdings Limited and Tegel Group Holdings Limited.

## G C W (GRANT) BIEL

B.E. (Mech.)

Grant Biel is a non-independent Director by virtue of his interests in Rural Aviation (1963) Limited, a substantial product holder in Cavalier.

He has been on the Cavalier Board since July 1984, held the position of executive Director in Cavalier from July 1984 to September 1995 and is a member of the Board's Audit, Remuneration and Nomination Committees.

Grant is the surviving co-founder of the Cavalier Carpets business which he founded with Tony Timpson in 1972.

His other directorships include Auckland Air Charter Limited, Heli Harvest Limited, Rural Aviation (1963) Limited and Westburn Investments Limited.

## A W (ALAN) CLARKE

B.Sc.(Hons), MBA, CFInstD

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

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

Alan served as Chair of the Board and Chair of the Board's Nomination Committee from April 2018 until his resignation from these roles in July 2020, having successfully taken the Group through the development of its transformation strategy to becoming a sustainable interior solutions business.

Alan has extensive governance and strategic experience as a director of both private and publicly listed companies in New Zealand and Australia over the last 28 years.

He has held responsibilities as CEO and Managing Director over that time, formulating and implementing successful strategic initiatives. These included change projects at SGS, a Swiss based multinational, initially in New Zealand and then Australia in the 1990's before he returned to New Zealand to head ElderCare, now Abano Healthcare Group, and most recently Hellaby Holdings.

He is currently an independent director of nib NZ, a health insurance provider.

## J M (JOHN) RAE

B.Com., LLB, CMInstD

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

He was appointed Chair of the Board's Audit Committee in July 2020 and is a member of the Board's Remuneration and Nomination Committees.

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

He is an experienced company director, currently Chair of Thos Corson Holdings Limited and Chair of the Advisory Board of Abodo Limited.

He is also a director of Corson Grain Limited, the Eastland Group of companies, Ngapuhi Asset Holding Company Limited, Smart Environmental Limited and WET Gisborne Limited, a Panel Member of the Provincial Growth Fund and a member of the Advisory Board of Te Tumu Paeroa.

## D V (DIANNE) WILLIAMS

B.Com., MBA, CMInstD

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

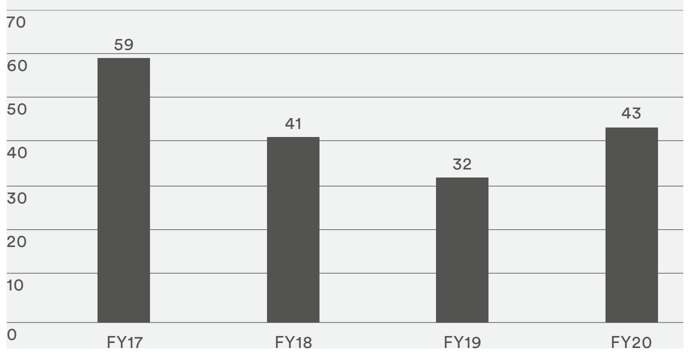
She was appointed Chair of the Board's Remuneration Committee in July 2020 and is a member of the Board's Audit and Nomination Committees.

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

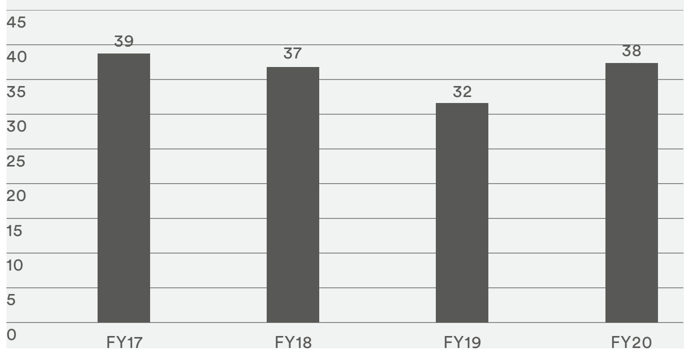
She is currently a director of Chartered Accountants Australia New Zealand, Netball Northern Zone (incorporated Society) and West Auckland Trust Services Limited.

# FOUR YEAR PERFORMANCE GRAPHS

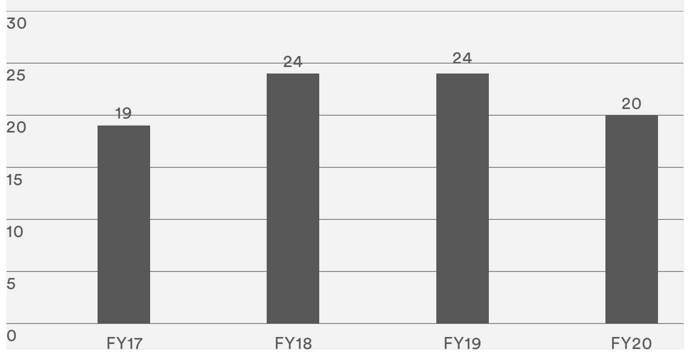
## GEARING (%)



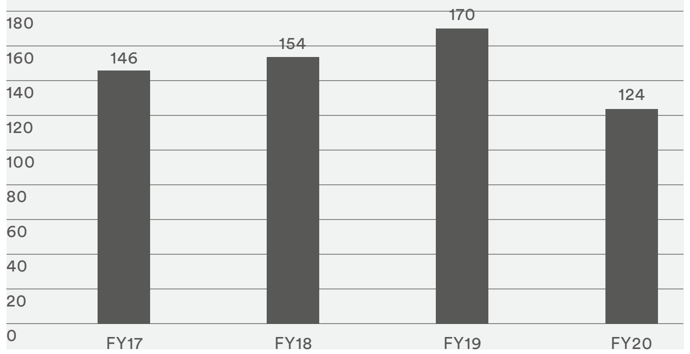

## DAYS SALES IN RECEIVABLES



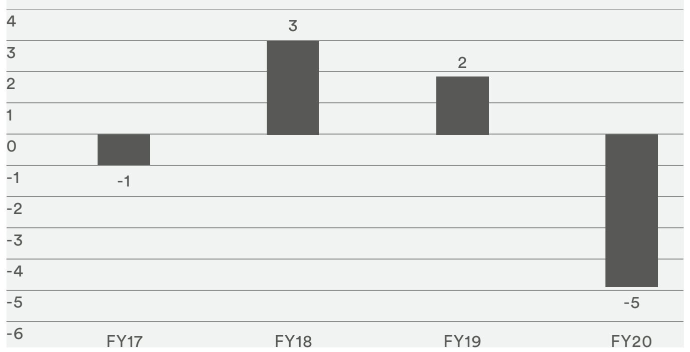

## GROSS PROFIT (%)



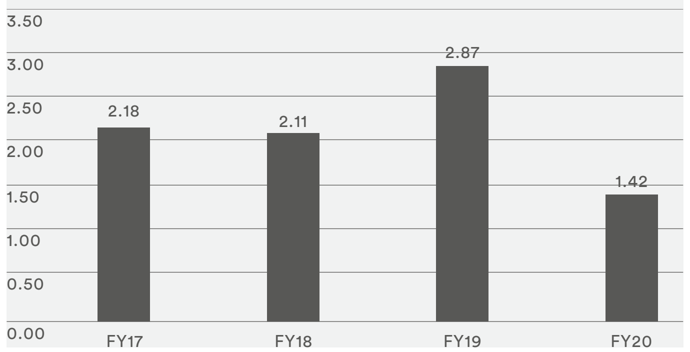

## INVENTORY TURNOVER IN DAYS




## RETURN (NORMALISED NPAT) ON ASSETS %




## CURRENT RATIO

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# TREND STATEMENT

| | 2020 $000 | 2019 $000 | 2018 $000 | 2017 $000 | 2016 $000 | 2015 $000 | 2014 $000 |
|---|---|---|---|---|---|---|---|
| **Trend Statement (Unaudited)** | | | | | | | |
| Operating revenue | $117,981 | $135,234 | $148,120 | $156,120 | $190,371 | $215,728 | $200,642 |
| EBITDA (normalised) | 2,300 | 7,076 | 9,998 | 2,572 | 12,275 | 8,517 | 14,609 |
| EBIT (normalised) | (2,162) | 3,597 | 6,437 | (679) | 8,923 | 2,655 | 8,760 |
| (Loss)/Profit before income tax (normalised) | (4,697) | 2,451 | 5,058 | (2,818) | 8,219 | 741 | 7,320 |
| (Loss)/Profit after tax (normalised) | (3,457) | 1,879 | 3,974 | (1,856) | 6,313 | 1,195 | 5,790 |
| Abnormal costs (after tax) | (17,994) | (18,659) | 107 | (268) | (3,198) | (26,910) | – |
| (Loss)/Profit after tax attributable to shareholders of the Company (GAAP) | (21,451) | (16,780) | 4,081 | (2,124) | 3,115 | (25,715) | 5,790 |
| Ordinary dividends paid | – | – | – | – | – | – | (4,785) |
| **Financial Position** | | | | | | | |
| Shareholders' equity | 33,637 | 54,989 | 72,222 | 67,890 | 69,361 | 66,184 | 92,959 |
| Loans and borrowings | 15,800 | 20,500 | 31,500 | 41,500 | 37,700 | 56,767 | 61,220 |
| Fixed assets | 22,725 | 30,164 | 35,142 | 37,123 | 36,820 | 47,910 | 63,900 |
| Right-of-use assets | 430 | – | – | – | – | – | – |
| Goodwill and other intangibles | – | – | 2,362 | 2,362 | 2,362 | 2,362 | 7,794 |
| Cash at bank | 1,276 | 2,724 | 2,111 | 1,255 | 1,200 | 2,834 | 2,375 |
| Return on average shareholders' equity (normalised) | (7.8)% | 3.0% | 5.7% | (2.7)% | 9.3% | 1.5% | 6.2% |
| Basic earnings per ordinary share (normalised) | (5.0)c | 2.7c | 5.8c | (2.7)c | 9.2c | 1.7c | 8.5c |
| Net tangible asset backing per ordinary share | $0.47 | $0.72 | $0.94 | $0.87 | $0.92 | $0.91 | $1.19 |

# 2

# FINANCIAL STATEMENTS

# FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2020

**Contents**





# FINANCIAL STATEMENTS
## DIRECTORS' RESPONSIBILITY STATEMENT

### DIRECTORS' RESPONSIBILITIES

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

### ACCOUNTING POLICIES

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

### ACCOUNTING RECORDS

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

### SAFEGUARDING OF ASSETS AND INTERNAL CONTROLS

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

### FINANCIAL STATEMENTS

The Directors present, on pages 39 to 89, the Group financial statements for the year ended 30 June 2020.

These audited financial statements were authorised for issue by the Directors on 20 November 2020 and, as required by section 461(1)(b) of the Financial Markets Conduct Act 2013, are dated and signed as at that date.

For and on behalf of Cavalier Corporation Limited

**T H G Adams**
Chairman of the Board of Directors

**J M Rae**
Chairman of the Audit Committee

# FINANCIAL STATEMENTS
## INDEPENDENT AUDITOR'S REPORT

**To the shareholders of Cavalier Corporation Limited**
Report on the audit of the consolidated financial statements

### OPINION

In our opinion, the accompanying consolidated financial statements of Cavalier Corporation Limited (the 'Company') and its subsidiaries (the 'Group') on pages 39 to 89:

i. present fairly in all material respects the Group's financial position as at 30 June 2020 and its financial performance and cash flows for the year ended on that date; and
ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

— the consolidated statement of financial position as at 30 June 2020;
— the consolidated income statement, statements of other comprehensive income, changes in equity and cash flows for the year then ended; and
— notes, including a summary of significant accounting policies and other explanatory information.

### BASIS FOR OPINION

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

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

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

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

### MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to the Going concern section in Note 2d of the consolidated financial statements, which indicates there is a material uncertainty concerning the Group's ability to generate sufficient cash flows to ensure the Group will have sufficient liquidity to continue as a going concern.

**THE AUDIT MATTER**

**Going concern and liquidity**
Refer to Note 2d to the Financial Statements.

Management has forecast the Group's financial performance, cash flows and financial position to support the Directors' assessment and conclusion that the Group will have sufficient liquidity to operate as a going concern for a period of at least one year from the issuance of these consolidated financial statements. In performing this assessment, assumptions were made in respect of the Group's strategic restructure, future economic and market conditions, such as forecast sales volumes, expected sales price fluctuations, production efficiencies, forecast AUD exchange rate movements, and forecast wool prices, with consideration of the Group's hedged positions.

**HOW THE MATTER WAS ADDRESSED IN OUR AUDIT**

We evaluated management's forecasts and the Group's ability to maintain liquidity for a period of at least 12 months from the issuance of these financial statements by performing the following procedures:

— Reviewed terms of the Group's revised facility agreement dated 30 June 2020 and considered the Group's debt repayment obligations.
— Evaluated the Group's previous forecasts by comparing actual performance against forecasts in prior periods.





# FINANCIAL STATEMENTS
## INDEPENDENT AUDITOR'S REPORT (CONT'D)

**THE AUDIT MATTER**

**Going concern and liquidity (cont'd)**

The Group's strategic decision to restructure its business to an all wool and natural materials organisation (the "Pivot") has substantially increased the level of estimation uncertainty for the above mentioned assumptions, most notably the projected sales volumes. As a result of the restructuring, additional estimates and assumptions have been made around the conversion and sell down of synthetic inventory, operating and capital expenditure necessary to transition the business, levels of working capital required to support the growth of the wool only business, and the need for additional funding.

Additionally, there is significant estimation uncertainty related to forecasting cash flows due to the potential future impact of COVID-19, which may impact future production levels and ability to sell product through retailers.

On 21 August 2020 the Group entered into an agreement for the sale and leaseback of its Auckland property for net proceeds of approximately $24 million. On 6 November 2020 the purchaser failed to settle on the agreement. On 9 November the Group served a settlement notice providing 12 working days to remedy the default. On 13 November 2020 the Group terminated its agreement with the purchaser for default of payment of the deposit and entered into a new agreement for the sale and leaseback of the Auckland property subject to shareholder approval or receiving a waiver from NZX from the need to obtain such shareholder approval. At the date of issuing our opinion, shareholder approval and settlement of the transaction had not been completed.

The Group's bank facility expires on 1 July 2021 with the facility limit reducing to $10.0 million on 31 December 2020, and $8.0 million on 30 April 2021. At the date of issuing our opinion the bank facility agreement has not been extended and no other debt or equity funding arrangements have been put in place.

Following the sell down of the Group's synthetic inventory, the Group is expected to generate negative operating cash flows for a period until the strategic initiatives supporting the Pivot take effect, and sales volumes of woollen carpets increase significantly. The Group is projected to have sold its synthetic inventory by the end of March 2021.

The Group may not be able to continue as a going concern for a period of at least 12 months from the issuance of these consolidated financial statements unless it completes the sale and leaseback of its property, or is able to raise significant equity and/or debt funding, or a combination of these.

**HOW THE MATTER WAS ADDRESSED IN OUR AUDIT**

— Reviewed the Group's forecast financial performance, cash flows and financial position under various scenarios, challenged key assumptions against historical production and market data, reviewed hedging agreements and wool contracts, and considered internal and external factors impacting the business, including the impact of COVID-19.
— Reviewed reports and board approved documents supporting the restructuring of the business to an all wool and natural materials organisation.
— Reviewed key inputs and assessed their consistency with Director-approved forecasts.
— Obtained sale and leaseback agreements relating to the Auckland property, understood sale conditions, future lease obligations and settlement terms, sighted receipt of deposit for the new sale and leaseback agreement.
— Performed a sensitivity analysis of the Group's forecasts under various scenarios.
— Assessed the adequacy of related disclosures in the financial statements against the requirements of the accounting standards.

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

# FINANCIAL STATEMENTS
## INDEPENDENT AUDITOR'S REPORT (CONT'D)

### EMPHASIS OF MATTER – RESTRUCTURE OF BUSINESS

We draw attention to Note 2c(i) which describes the effect of the Board approved strategic decision to restructure its business to an all wool and natural materials organisation. This has substantially increased the level of judgement and estimation uncertainty in determining the carrying values of certain assets and liabilities recognised in the consolidated financial statements of the Group. Our opinion is not qualified in respect of this matter.

### MATERIALITY

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

### KEY AUDIT MATTERS

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

| THE KEY AUDIT MATTER | HOW THE MATTER WAS ADDRESSED IN OUR AUDIT |
|---|---|
| **Impairment of non-current assets (Carpets CGU)**<br>Refer to Note 6a to the Financial Statements. | |
| As at 30 June 2020, prior to any adjustment for impairment, non-current assets relating to the Carpets CGU consisted of property, plant and equipment with a carrying value of $28,238,000, and right of use assets with a carrying value of $2,909,000.<br>The Group's market capitalisation of $15,109,000 was significantly below the carrying value of its net assets of $53,718,000 (pre-impairment) as at 30 June 2020. This disparity was an indicator of impairment of non-current assets in the Carpets CGU. Management performs an impairment assessment of property, plant and equipment where there are indicators of impairment. Based on this assessment, management determined that the property, plant and equipment and right of use assets allocated to the Carpets CGU were impaired by $7,077,000 and $2,909,000, respectively. Property with a carrying value of $21,161,000 is supported by its fair value which exceeds its carrying value. As disclosed in Note 6a, in assessing whether property, plant and equipment is impaired, the Group uses a Discounted Cash Flow ('DCF') value-in-use model. In performing this assessment, assumptions are made in respect of future economic and market conditions, such as forecast sales volumes, expected sales price fluctuations, budgeted production efficiencies, forecast AUD exchange rate movements, and forecast wool prices, with consideration of the Group's hedged positions. Additionally, management determined a terminal growth rate and discount rate which reflect an assessment of the time value of money and the risks specific to the business. | Our testing of impairment of non-current assets included the following procedures:<br>— Evaluated management's identification of CGU's.<br>— Evaluated the methodologies, data and assumptions used in the discounted cash flow model and in doing this, we involved our valuation specialists.<br>— Challenged management's cash flow assumptions, including projected sales volumes, sales margin, wool price and foreign exchange rates against historical performance and forecast market information.<br>— Reviewed reports and board approved documents supporting the restructuring of the business to an all wool and natural materials organisation and considered their consistency with the assumptions adopted in the DCF model.<br>— We cross referenced the outcome of the DCF impairment model against the Group's market capitalisation with consideration of control premium.<br>— Reviewed real estate agency reports and offers for the Group's property, and sale and purchase agreements for the Auckland property.<br>— Performed sensitivity analyses on the key assumptions used in the impairment model.<br>— Evaluated disclosure of impairment and related key assumptions in the financial statements of the Group. |



# FINANCIAL STATEMENTS
## INDEPENDENT AUDITOR'S REPORT (CONT'D)

| THE KEY AUDIT MATTER | HOW THE MATTER WAS ADDRESSED IN OUR AUDIT |
|---|---|
| **Impairment of non-current assets (Carpets CGU) (cont'd)** | |
| The Group's strategic decision to restructure its business to an all wool and natural materials organisation requires a substantial increase in sales volumes of woollen carpets over the forecast period which represents significant estimation uncertainty in assessing the recoverability of property, plant and equipment.<br>We focused on the impairment of property, plant and equipment due to the magnitude of the balance, judgement and estimation uncertainty related to assessing its recoverability. | The results of our procedures supported the impairment of non-current assets allocated to the Carpets CGU as concluded by the directors. |

| THE KEY AUDIT MATTER | HOW THE MATTER WAS ADDRESSED IN OUR AUDIT |
|---|---|
| **Valuation of inventory**<br>Refer to Note 7c to the Financial Statements. | |
| The Group has significant inventory balances consisting of both raw materials and finished goods relating primarily to the production of carpets.<br>Inventory is valued at the lower of cost and net realisable value. Assessing the net realisable value of inventory is complex and requires judgement in regard to the identification and categorisation of inventory as obsolete, slow moving and at risk of being sold below cost. Estimates are then involved in determining the amount of provision required against the cost of such inventory items.<br>The Group's strategic decision to transform its business to an all wool and natural materials organisation has resulted in the exit from synthetic carpets which are expected to be fully sold down in FY 2021. There is significant estimation uncertainty related to assessing the realisable value of synthetic inventory.<br>We focused on the valuation of inventory due to the magnitude of the balance, judgement and estimation uncertainty related to assessing its net realisable value. | We evaluated the valuation of inventory by performing the following audit procedures:<br>— Observed the condition of inventory as part of our physical inventory count procedures.<br>— We challenged management's calculation of provisions recognised against synthetic inventory at the balance date. We assessed inventory turnover levels of synthetic carpets, and considered the quantities held of synthetic yarn and finished goods inventory in determining the level of provisioning required to fully sell down the synthetic inventory in FY2021.<br>— Assessed the Group's methodology for identifying slow moving and obsolete inventories, taking into consideration the nature of the inventory and the Group's ongoing inventory rationalisation plans.<br>— Obtained management's calculation of net realisable value for slow moving and obsolete inventories and compared it to historical sales and margin reports. We also assessed and challenged key assumptions for reasonableness and corroborated with explanations provided by sales and inventory managers.<br>— Performed a detailed inventory turnover analysis and considered whether any excess quantities of inventory are on hand.<br>— Reviewed and tested underlying sales and inventory cost reports.<br>We did not identify material matters that were inconsistent with the Directors' conclusion that inventory is appropriately valued. |

# FINANCIAL STATEMENTS
## INDEPENDENT AUDITOR'S REPORT (CONT'D)

### OTHER INFORMATION

The Directors, on behalf of the Group, are responsible for the other information included in the entity's Annual Report. Other information includes Chairman and Chief Executive's report, disclosures relating to corporate governance and other Group specific information. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### USE OF THIS INDEPENDENT AUDITOR'S REPORT

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

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

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

— the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;

— implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and

— assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

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

Our objective is:

— to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and

— to issue an independent auditor's report that includes our opinion.

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

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

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at: xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our independent auditor's report.

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

For and on behalf of

KPMG.

**KPMG**
Auckland
20 November 2020



# CONSOLIDATED INCOME STATEMENT
## FOR THE YEAR ENDED 30 JUNE 2020

| Audited | Note | 2020 $000 | 2019 $000 |
|---|---|---|---|
| Revenue | 4c | **117,981** | 135,234 |
| Cost of sales | | **(94,443)** | (102,378) |
| **Gross profit** | | **23,538** | 32,856 |
| | | | |
| Other income and gains/losses | 4d | **35** | 41 |
| Distribution expenses | | **(19,039)** | (22,486) |
| Administration expenses | 4e | **(6,696)** | (6,814) |
| Restructuring costs | | **(1,186)** | – |
| Impairment of plant and equipment | 6a | **(7,077)** | (6,129) |
| Impairment of right-of-use assets | 3, 6a | **(2,909)** | – |
| Impairment of goodwill | | **–** | (2,362) |
| **Results from operating activities** | | **(13,334)** | (4,894) |
| | | | |
| Net finance costs | 4h | **(2,535)** | (1,790) |
| | | | |
| Share of profit after tax of equity-accounted investees | 9a | **–** | 644 |
| Loss on sale of interest in, and property held by, equity-accounted investees | 9a | **–** | (11,884) |
| **Loss before income tax** | | **(15,869)** | (17,924) |
| | | | |
| Income tax benefit | 4i | **7,309** | 1,144 |
| Derecognition of deferred tax assets | 4i | **(12,891)** | – |
| **Loss after tax for the year** | | **($21,451)** | ($16,780) |
| **Basic and diluted loss per share (cents)** | 4b | **(31.2)** | (24.4) |

*This statement is to be read in conjunction with the notes on pages 46 to 89.*

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 30 JUNE 2020

| Audited | Note | 2020 $000 | 2019 $000 |
|---|---|---|---|
| **Loss after tax for the year** | | **(21,451)** | (16,780) |
| **Other comprehensive income that may be reclassified subsequently to profit or loss** | | | |
| Effective portion of changes in fair value of cash flow hedges | | **(178)** | 229 |
| Net change in fair value of cash flow hedges transferred to profit or loss | | **315** | (536) |
| Income tax on changes in fair value of cash flow hedges | 4i | **(38)** | 86 |
| Share of fair value of cash flow hedges (net of income tax) of equity-accounted investee | 9a | **–** | 72 |
| | | **99** | (149) |
| **Total comprehensive income for the year** | | **($21,352)** | ($16,929) |

*This statement is to be read in conjunction with the notes on pages 46 to 89.*



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 30 JUNE 2020

| Audited | Share Capital $000 | Cash Flow Hedging Reserve $000 | Foreign Currency Translation Reserve $000 | Retained Earnings $000 | Total Equity $000 |
|---|---|---|---|---|---|
| **Total equity at 1 July 2019** | **21,846** | **(219)** | **(1,420)** | **34,782** | **54,989** |
| **Total comprehensive income for the year** | | | | | |
| **Loss after tax** | **–** | **–** | **–** | **(21,451)** | **(21,451)** |
| **Other comprehensive income that may be reclassified subsequently to profit or loss** | | | | | |
| Changes in fair value of cash flow hedges (net of income tax) | **–** | **99** | **–** | **–** | **99** |
| **Total comprehensive income for the year** | **–** | **99** | **–** | **(21,451)** | **(21,352)** |
| **Total equity at 30 June 2020** | **$21,846** | **($120)** | **($1,420)** | **$13,331** | **$33,637** |

*This statement is to be read in conjunction with the notes on pages 46 to 89.*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

| Audited | Note | Share Capital $000 | Cash Flow Hedging Reserve $000 | Foreign Currency Translation Reserve $000 | Retained Earnings $000 | Total Equity $000 |
|---|---|---|---|---|---|---|
| **Total equity at 1 July 2018** | | 21,846 | (70) | (1,420) | 51,866 | 72,222 |
| Impact of adopting NZ IFRS 15 Revenue | | – | – | – | (304) | (304) |
| **Total equity at 1 July 2018 after adjusting for impact of change in accounting policy** | | 21,846 | (70) | (1,420) | 51,562 | 71,918 |
| **Total comprehensive income for the year** | | | | | | |
| **Loss after tax** | | – | – | – | (16,780) | (16,780) |
| **Other comprehensive income that may be reclassified subsequently to profit or loss** | | | | | | |
| Changes in fair value of cash flow hedges (net of income tax) | | – | (221) | – | – | (221) |
| Share of fair value of cash flow hedges (net of income tax) of equity-accounted investee | 9a | – | 72 | – | – | 72 |
| | | – | (149) | – | – | (149) |
| **Total comprehensive income for the year** | | – | (149) | – | (16,780) | (16,929) |
| **Total equity at 30 June 2019** | | $21,846 | ($219) | ($1,420) | $34,782 | $54,989 |

*This statement is to be read in conjunction with the notes on pages 46 to 89.*



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT 30 JUNE 2020

| Audited | Note | 2020 $000 | 2019 $000 |
|---|---|---|---|
| **ASSETS** | | | |
| Property, plant and equipment - owned | 6a | 22,725 | 30,164 |
| Property, plant and equipment - right-of-use | 3 | 430 | – |
| Deferred tax asset | 4i | 600 | 5,456 |
| **Total non-current assets** | | 23,755 | 35,620 |
| Cash and cash equivalents | 7a | 1,276 | 2,724 |
| Trade receivables, other receivables and prepayments | 7b | 12,607 | 12,344 |
| Inventories | 7c | 32,081 | 47,678 |
| Derivative financial instruments | 8 | 160 | 653 |
| Income tax receivable | | 102 | 315 |
| **Total current assets** | | 46,226 | 63,714 |
| **Total assets** | | $69,981 | $99,334 |
| **EQUITY** | | | |
| Share capital | 5b | 21,846 | 21,846 |
| Cash flow hedging reserve | 5b | (120) | (219) |
| Foreign currency translation reserve | 5b | (1,420) | (1,420) |
| Retained earnings | | 13,331 | 34,782 |
| **Total equity** | | 33,637 | 54,989 |
| **LIABILITIES** | | | |
| Loans and borrowings | 5c | – | 20,500 |
| Lease liabilities | 3 | 2,224 | – |
| Employee benefits | 9c | 888 | 903 |
| Provisions | 9b | 584 | 715 |
| **Total non-current liabilities** | | 3,696 | 22,118 |
| Loans and borrowings | 5c | 15,800 | – |
| Trade payables and accruals | 7d | 10,617 | 17,014 |
| Employee entitlements | | 3,444 | 3,856 |
| Lease liabilities | 3 | 1,345 | – |
| Provisions | 9b | 710 | 699 |
| Derivative financial instruments | 8 | 732 | 649 |
| Deferred income | | – | 9 |
| **Total current liabilities** | | 32,648 | 22,227 |
| **Total liabilities** | | 36,344 | 44,345 |
| **Total equity and liabilities** | | $69,981 | $99,334 |

*This statement is to be read in conjunction with the notes on pages 46 to 89.*

# CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 30 JUNE 2020

| Audited | Note | 2020 $000 | 2019 $000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash receipts from customers | | **117,836** | 135,700 |
| Cash paid to suppliers and employees | | **(107,965)** | (130,611) |
| | | **9,871** | 5,089 |
| Dividends received | | **1** | 2 |
| Other receipts | | **4** | 4 |
| GST (paid)/refunded | | **(10)** | 14 |
| Interest paid - bank borrowings | | **(2,006)** | (1,918) |
| Interest paid - lease liabilities | | **(536)** | - |
| Income tax paid | | **(551)** | (285) |
| **Net cash flow from operating activities** | | **6,773** | 2,906 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds from sale of property, plant and equipment | | **28** | 110 |
| Acquisition of property, plant and equipment | 6a | **(2,119)** | (4,705) |
| Proceeds from sale of interest in, and property held by, equity-accounted investees | 9a | **–** | 10,593 |
| Dividends received from equity-accounted investees | 9a | **–** | 2,783 |
| **Net cash flow from investing activities** | | **(2,091)** | 8,781 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Repayment of bank borrowings | 5c | **(4,700)** | (11,000) |
| Principal repayment of lease liabilities | 3 | **(1,490)** | – |
| **Net cash flow from financing activities** | | **(6,190)** | (11,000) |
| **Net increase in cash and cash equivalents** | | **(1,508)** | 687 |
| Cash and cash equivalents at beginning of the year | | **2,724** | 2,111 |
| Effect of exchange rate changes on cash | | **60** | (74) |
| **Cash and cash equivalents at end of the year** | | **$1,276** | $2,724 |

*This statement is to be read in conjunction with the notes on pages 46 to 89.*



# CONSOLIDATED STATEMENT OF CASH FLOWS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

| Audited | 2020 $000 | 2019 $000 |
|---|---|---|
| **Loss after tax for the year** | **(21,451)** | (16,780) |
| Add/(Deduct) non-cash items: | | |
| Depreciation - owned assets | **2,683** | 3,479 |
| Depreciation - right-of-use assets | **1,779** | – |
| Impairment of plant and equipment | **7,077** | 6,129 |
| Impairment of right-of-use assets | **2,909** | – |
| Impairment of goodwill | **–** | 2,362 |
| Share of profit of equity-accounted investees | **–** | (644) |
| Loss on sale of interest in, and property held by, equity-accounted investees | **–** | 11,884 |
| Deferred tax credit | **(8,073)** | (399) |
| Derecognition of deferred tax assets | **12,891** | – |
| Employee benefits | **(427)** | (228) |
| Deferred income | **(9)** | (37) |
| Provisions | **(174)** | (1,918) |
| Net loss/(gain) on sale of property, plant and equipment | **35** | (35) |
| Net (gain)/loss on foreign currency balance | **(60)** | 74 |
| Changes in working capital items: | | |
| Trade and other receivables | **(263)** | 511 |
| Inventories | **15,332** | 1,531 |
| Income tax payable/receivable | **213** | (1,030) |
| Trade payables and accruals | **(6,400)** | (2,060) |
| Derivative financial instruments | **711** | 67 |
| **Net cash flow from operating activities** | **$6,773** | $2,906 |

*This statement is to be read in conjunction with the notes on pages 46 to 89.*

# NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2020

## 1. COMPANY INFORMATION

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

The financial statements presented are for Cavalier and its subsidiaries ("Group") as at, and for the year ended, 30 June 2020.

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

The principal activities of the Group comprise wool acquisition, and carpet and rug manufacturing and sales. All Group subsidiaries are wholly-owned.

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

### 2a. STATEMENT OF COMPLIANCE

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

### 2b. BASIS OF PREPARATION

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

They have been prepared on the historical cost basis, except for derivative financial instruments which are measured at fair value as disclosed at note 8 (Risks and financial instruments) to the financial statements.

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

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

### 2c. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial statements in conformity with NZ IFRS requires the directors to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

**2c (i) Transformation to the all-wool and natural materials business model**
On 22 May 2020, the Board of Directors approved a strategic decision to transform the business to an all-wool and natural materials organisation. The Company has commenced its exit from the non-wool carpet business so that it can focus on its woollen carpet operations – with the funds released from the sale of non-wool inventory being used to reduce the Group's net bank debt position. The Board also advised shareholders and the market that to facilitate the Group's transformation, it would require significant additional investment and funding.

On 13 November 2020, the Group entered into an agreement for the sale and leaseback of its Auckland property, with the net proceeds of sale of approximately $25 million to be used to fully repay bank debt outstanding at settlement date (expected to be no later than the end of January 2021) and the balance applied towards providing the Group with the financial resources to undertake its strategic transformation. More information relating to the sale and leaseback of the Auckland property can be found at note 9g (Events after balance date) to the financial statements.



# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

## 2. GENERAL INFORMATION RELATING TO PREPARATION OF FINANCIAL STATEMENTS (CONT'D)

### 2c. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

**2c (i) Transformation to the all-wool and natural materials business model (cont'd)**
The Group's transformation represents a material change in direction of the business and the forecasts include a significant level of estimation uncertainty and execution risk. Five-year modelling of Cavalier's future financial performance and the investment needed to bring about the transformation has been undertaken by management and external advisers.

In summary:

- The surplus cash at the end of FY21, arising primarily as a result of the sell down of non-wool inventory, the sale of the Auckland property and settlement of bank debt during FY21, will also be required in FY22 for the ongoing transformation;
- Total sales revenue for FY21 and FY22 will reduce as Cavalier exits its non-wool carpet business;
- Investment costs, including the restructuring of the Group's operations, will be incurred as the business adjusts its manufacturing and sales base to reflect the new sales focus, with these costs also inclusive of new display stands at retail to expand its market presence;
- Marketing investment and people costs associated with the sustainability initiative will increase as Cavalier will be investing in a number of initiatives to enhance its market presence and ensure its strategy is successfully communicated, understood and implemented – in the process growing the wool flooring market while also growing its share of the wool market;
- As Cavalier's strategy progresses and sales of higher margin, higher value woollen carpets replace and eclipse the previous synthetic carpet sales, Cavalier's financial performance is forecast to improve, with growing revenues expected from FY23 and FY24 onwards as the business builds woollen carpet sales;
- The full benefits from the transformation are expected from FY25 onwards.

The Board is currently not considering further sale and leaseback of the Group's other properties but is continuing to investigate other additional sources of funding should these be required to enable it to fully execute the transformation strategy.

The Board acknowledges that the Group's strategic decision to transform the business model, in particular judgements and estimates around the projected increase in woollen carpet sales, has substantially increased the level of estimation uncertainty with respect to a number of areas in the financial statements as identified below:

| Areas involving substantially increased level of judgement and estimation uncertainty as a consequence of the transformation to an all-wool and natural materials model | Notes to the financial statements |
|---|---|
| Liquidity and going concern | Note 2d Going concern |
| Recoverability of deferred tax assets and tax losses carried forward | Note 4i Income tax |
| Impairment of non-current assets | Note 3 Leases and right-of-use assets and Note 6a Property, plant and equipment |
| Classification of non-current assets as held for sale | Note 6a Property, plant and equipment |
| Net realisable value of non-wool inventory | Note 7c Inventories |
| Effectiveness of hedging instruments | Note 8 Risks and financial instruments |

In future reporting periods, the Group's funding structure, levels of working capital, and leasing arrangements will be materially different.

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

## 2. GENERAL INFORMATION RELATING TO PREPARATION OF FINANCIAL STATEMENTS (CONT'D)

### 2c. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

**2c (ii) COVID-19**
On 11 March 2020 the World Health Organisation declared a global pandemic as a result of the outbreak and spread of COVID-19. Following this, on Wednesday, 25 March 2020, the New Zealand Government raised its Alert Level to 4 (full lockdown of non-essential services) for a period of four weeks during which the manufacturing facilities of the Group were shut down and its network of retail customers were unable to trade. In Alert Level 3, the Group recommenced manufacturing and there has subsequently been a strong recovery in sales to normal levels. However, the impact of COVID-19 on the economy remains uncertain, particularly with further outbreaks of COVID-19 in New Zealand and Australia. The Group has considered the impact of COVID-19 in forecasting its projected cash flows when assessing its ongoing liquidity, valuation of non-current assets and the Group's ability to comply with the terms of its debt facilities.

**2c (iii) Others**
Information about estimates and judgements that have a significant effect on the amounts recognised in the financial statements are also disclosed in the following notes:

**Note 7c** – inventory provisioning

**Note 9b** – measurement of provisions

**Note 9c** – measurement of employee benefits

Significant accounting policies and critical estimates, judgements and assumptions are disclosed in the relevant notes to the financial statements and identified using the following coloured boxes:

**Accounting policies** | **Estimates, judgements and assumptions**

### 2d. GOING CONCERN

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

During the year ended 30 June 2020, the Group continued to encounter challenging trading conditions, including those arising from the COVID-19 pandemic, which resulted in the Group failing to achieve its forecast sales and profitability targets.

The Group was able to renegotiate its banking facilities and covenant settings during the year to better reflect the changes in operating conditions, including those brought on by COVID-19.

The Group also negotiated the extension of its funding facilities to 1 July 2021 prior to balance date, with the extended banking facilities establishing debt reduction targets and covenant settings that reflected the Group's transformation to the all-wool and natural materials business model and management's inventory and debt reduction targets for FY21.

Management forecasts the Group's financial performance, cash flows and financial position as part of its management and monitoring of the Group's:

- operations and performance;
- ability to comply with its financial covenants over the term of its banking facilities; and
- capacity to meet its debt repayment obligations as well as its other financial commitments as they fall due in the normal course of business.

## 2. GENERAL INFORMATION RELATING TO PREPARATION OF FINANCIAL STATEMENTS (CONT'D)

### 2d. GOING CONCERN (CONT'D)

In preparing these forecasts, management considered and, where required, made assumptions in relation to:

- woollen carpet sales after having regard to future economic and market conditions, including the uncertainty brought on by COVID-19;
- NZD/AUD exchange rate changes, after considering hedged positions;
- wool price movements, after recognising wool purchase contracts;
- progress being made with the exit from the non-wool carpet business and expected realisation of funds from the sell down of non-wool inventory; and
- manufacturing discipline and cost control.

The Board notes that these financial forecasts are particularly sensitive to changes in woollen carpet sales and margins, with the Group's capacity to meet the Bank's debt reduction targets highly dependent on these factors – particularly, if woollen carpet sales volumes were to continue to erode in FY21 and into FY22.

As a consequence, the Board believes that there is material uncertainty concerning the Group's ability to generate sufficient cash flows to meet its debt repayment obligations and to provide the Group with sufficient liquidity to operate as a going concern. Should the Group not complete the sale and leaseback of its Auckland property or raise additional equity or debt funding, the Group may not be able to continue as a going concern and realise the value of its assets and discharge its liabilities in the normal course of business.

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

- ongoing plans to grow carpet sales by increasing its in-store presence, supply chain improvements and on-going product development and range refreshment;
- plans to sell-down non-wool carpet inventory in a timely manner, while balancing that against maximising the realisable value of inventory;
- initiatives to reduce the cost base as the Group exits the non-wool carpet business and transitions to the all-wool business model;
- actions in place to manage costs relating to the execution of the transformation strategy until completion of the sale and leaseback, and receipt of the proceeds of sale, of the Auckland property;
- seeking extensive independent advice on options available to the Group on the most effective way of accessing capital at this time and the capital options available to it to further strengthen its financial position.

Additionally, the Board notes that the sale and leaseback of the Group's Auckland property remains on track, after the failure of the original purchaser to settle the transaction.

A new agreement was entered into with another purchaser on 13 November 2020 as discussed at note 9g (Events after balance date) to the financial statements.

The Board also notes that a deposit has been received, with the settlement of this new agreement only conditional on receipt of either a waiver being obtained from NZX from the need to obtain Cavalier shareholder approval for the sale and leaseback or, failing receipt of the waiver, Cavalier shareholder approval at the Annual Meeting of shareholders on 23 December 2020.

The Board expects settlement of the new agreement will take place towards the end of January 2021 and considers the Group to be a going concern, with the Group able to not only meet its contractual obligations for a period of at least 12 months from the issuance of the financial statements, but also having the funding over the next few years until it begins to realise the financial benefits of the transformation strategy.

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

## 2. GENERAL INFORMATION RELATING TO PREPARATION OF FINANCIAL STATEMENTS (CONT'D)

### 2e. BASIS OF CONSOLIDATION

The financial statements incorporate the assets and liabilities of all subsidiaries of the Group as at 30 June 2020 and the results of all subsidiaries for the year then ended. Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

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

### 2f. NEW AND AMENDED ACCOUNTING STANDARDS ADOPTED AND CHANGES IN ACCOUNTING POLICIES

There have been no changes in the accounting policies adopted in the preparation of the financial statements except as a consequence of the Group's adoption of NZ IFRS 16 Leases (NZ IFRS 16) during the year.

The impact of the adoption of NZ IFRS 16 can be found at note 3 (Leases and right-of-use assets) to the financial statements.

The Group also early adopted the January 2020 amendments to NZ IAS 1 Presentation of Financial Statements during the year.



# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

## 3. LEASES AND RIGHT-OF-USE ASSETS

### IMPACT OF THE ADOPTION OF NZ IFRS 16

Effective 1 July 2019, the Group applied NZ IFRS 16 for its accounting of leases, using the modified retrospective approach. Under this approach, the cumulative effect of initially applying NZ IFRS 16, if any, is recognised as an adjustment to equity at that date. Comparative figures for the year ended 30 June 2019 are not restated to reflect the application of NZ IFRS 16.

Prior to 1 July 2019, the Group treated its leases of property, plant and equipment as operating leases pursuant to NZ IAS 17 Leases, with lease payments recognised through profit or loss on a straight-line basis over the term of these leases.

Effective 1 July 2019, NZ IFRS 16 eliminates the lessee's classification of leases as either finance leases (on balance sheet) or operating leases (off balance sheet) and introduces a single lessee accounting model. Applying the new model, a lessee is required to recognise a right-of-use (or leased) asset and a corresponding lease liability (reflecting the present value of future lease payments) at the date at which the leased asset is available for use unless the term of the lease is 12 months or less (a short-term lease) or the underlying leased asset is of low value (low-value lease). Lease payments are then allocated between the lease liability recognised and finance costs, with the amount of finance costs charged to profit or loss over the lease term using the effective interest rate method on the outstanding lease liability for each reporting period.

As a consequence, the way lease payments are recognised in profit or loss changes under NZ IFRS 16, with the Group now recognising a depreciation charge for right-of-use assets and interest expense on lease liabilities, whereas previously, the Group recognised an operating lease expense over the term of the lease.

The application of NZ IFRS 16 does not impact the Group's cash flow or its ability to comply with its debt covenants because all changes effected by NZ IFRS 16 are not required to be taken into account for the purpose of calculating financial covenants pursuant to the terms of the Group's facility agreement with the Bank.

The operating lease commitments as at, and for the year ended, 30 June 2019, to the extent that they relate to leases of identifiable assets with a lease term of 12 months or more or which were not low value, were brought onto the statement of financial position on 1 July 2019.

Some property leases contain an extension option that can be exercised at the discretion of the Group. Where an extension is reasonably certain of being exercised, that extension period and related costs are recognised in the Statement of Financial Position as additional right-of-use (or leased) asset and additional lease liability.

Certain practical expedients permitted by NZ IFRS 16 were adopted in applying NZ IFRS 16 for the first time as follows:

- use of a single discount rate for portfolio of leases with reasonably similar characteristics;
- use of onerous contract assessment under NZ IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application instead of performing an impairment review under NZ IAS 36 Impairment of Assets;
- accounting for operating leases with remaining lease terms of less than 12 months as at 1 July 2019 as short-term leases;
- exclusion of initial direct costs for the measurement of right-of-use assets at the date of initial application;
- use of hindsight in determining the lease term where the contract contains options to extend the lease; and
- the election not to reassess whether a contract is, or contains, a lease at the date of initial application, with reliance placed on NZ IAS 17 and NZ IFRIC 4 Determining whether an Arrangement contains a Lease for contracts entered into before the transition date.

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

### 3. LEASES AND RIGHT-OF-USE ASSETS (CONT'D)

**IMPACT OF THE ADOPTION OF NZ IFRS 16 (CONT'D)**

**Summary of the impact on the Statement of Financial Position on the adoption of NZ IFRS 16**

| | Adoption date 1 Jul 2019 $000 |
|---|---|
| **Assets** | |
| Non-current assets | |
| Property, plant and equipment – right-of-use | 7,831 |
| **Total adjustments - Assets** | **$7,831** |
| **Liabilities** | |
| Non-current liabilities | |
| Lease liabilities | 6,338 |
| Provision for make good | 50 |
| Total non-current liabilities | 6,388 |
| Current liabilities | |
| Lease liabilities | 1,438 |
| Provision for make good | 5 |
| Total current liabilities | 1,443 |
| **Total adjustments – Liabilities** | **$7,831** |



# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

### 3. LEASES AND RIGHT-OF-USE ASSETS (CONT'D)

**IMPACT OF THE ADOPTION OF NZ IFRS 16 (CONT'D)**

**Reconciliation between operating lease commitments in accordance with NZ IAS 17 as at 30 June 2019 and lease liabilities recognised on initial application of NZ IFRS 16 as at 1 July 2019:**

| | $000 |
|---|---|
| Operating lease commitments as at 30 June 2019 | 5,510 |
| Less short-term leases (less than 12 months) not recognised | (266) |
| Less low-value leases not recognised | (45) |
| Add adjustments for lease extensions reasonably certain to be exercised | 5,131 |
| | 10,330 |
| Effect of discounting using incremental borrowing rates at 1 July 2019 | (2,554) |
| Lease liabilities recognised at 1 July 2019 | $7,776 |
| Non-current | 6,338 |
| Current | 1,438 |
| Lease liabilities recognised as at 1 July 2019 | $7,776 |

A weighted average discount rate of 7.5% was used to determine the present value of lease liabilities as at 1 July 2019.

**Right of use assets**
The reconciliation of right-of-use assets recognised on initial application of NZ IFRS 16 as at 1 July 2019 with those as at 30 June 2020 by class is set out below:

| | Balance 1 Jul 2019 $000 | Additions $000 | Depreciation $000 | Remeasurement $000 | Impairment losses $000 | Balance 30 Jun 2020 $000 |
|---|---|---|---|---|---|---|
| Buildings | 6,381 | 22 | (1,116) | (2,960) | (1,897) | 430 |
| Other assets | 1,450 | 225 | (663) | – | (1,012) | – |
| Total | $7,831 | $247 | ($1,779) | ($2,960) | ($2,909) | $430 |

Lease liabilities were remeasured at the balance date to recognise the fact that it was no longer reasonably certain that the Group would be exercising the option to renew the lease of a property as a consequence of the transformation to the all-wool model.

Based on the Group's assessment of the carrying value of property, plant and equipment and other assets for impairment as discussed at note 6a (Property, plant and equipment) to the financial statements, all of the Carpet cash-generating unit's right-of-use assets with a carrying value of $2,909,000 were impaired. The Board approved the $2,909,000 impairment of right-of-use assets in addition to the $7,077,000 impairment of plant and equipment and other assets as disclosed at note 6a (Property, plant and equipment) to the financial statements.

**Lease liabilities**
The reconciliation of lease liabilities recognised on initial application of NZ IFRS 16 as at 1 July 2019 with those as at 30 June 2020 is set out below:

| | Balance 1 Jul 2019 $000 | Additions $000 | Repayment $000 | Remeasurement $000 | Balance 30 Jun 2020 $000 |
|---|---|---|---|---|---|
| Total | $7,776 | $243 | ($1,490) | ($2,960) | $3,569 |
| Non-current | 6,338 | | | | 2,224 |
| Current | 1,438 | | | | 1,345 |
| Total | $7,776 | | | | $3,569 |

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

### 3. LEASES AND RIGHT-OF-USE ASSETS (CONT'D)

**IMPACT OF THE ADOPTION OF NZ IFRS 16 (CONT'D)**

**Summary of the impact of NZ IFRS 16 on the income statement for the year:**

| | Assuming application of NZ IAS 17 $000 | Impact of NZ IFRS 16 $000 | Impairment losses $000 | Reported result $000 |
|---|---|---|---|---|
| Revenue | 117,981 | | | 117,981 |
| Cost of sales | (94,629) | 186 | – | (94,443) |
| Gross profit | 23,352 | 186 | – | 23,538 |
| Other income and gains | 35 | – | – | 35 |
| Distribution expenses | (19,081) | 42 | – | (19,039) |
| Administration expenses | (6,715) | 19 | – | (6,696) |
| Restructuring costs | (1,186) | – | – | (1,186) |
| Impairment of plant and equipment | (7,077) | – | – | (7,077) |
| Impairment of right-of-use assets | – | – | (2,909) | (2,909) |
| Result from operating activities | (10,672) | 247 | (2,909) | (13,334) |
| Net finance costs | (1,999) | (536) | – | (2,535) |
| Loss before tax | (12,671) | (289) | (2,909) | (15,869) |
| Tax expense | (5,663) | 81 | – | (5,582) |
| Loss after tax | (18,334) | (208) | (2,909) | (21,451) |
| Basic and diluted earnings per share (cents) | (26.7) | (0.3) | (4.2) | (31.2) |

**Analysis of the impact of NZ IFRS 16 on the Income Statement:**

| | Lease payments booked to lease liabilities in the Statement of Financial Position $000 | Additional depreciation charge for right-of-use assets recognised in profit or loss $000 | Additional finance costs on lease liabilities recognised in profit or loss $000 | Impact on Income Statement for year ended 30 June 2020 $000 |
|---|---|---|---|---|
| Cost of sales | 1,036 | (850) | – | 186 |
| Distribution expenses | 822 | (780) | – | 42 |
| Administration expenses | 168 | (149) | – | 19 |
| Net finance costs | – | – | (536) | (536) |
| | $2,026 | ($1,779) | ($536) | ($289) |

**Short-term lease and low-value asset lease expense for the year:**

| | Expense recognised in profit or loss $000 |
|---|---|
| Short term lease expense | (266) |
| Low-value asset lease expense | (45) |
| Total | ($311) |



# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

### 3. LEASES AND RIGHT-OF-USE ASSETS (CONT'D)

**IMPACT OF THE ADOPTION OF NZ IFRS 16 (CONT'D)**

**Summary of the impact of NZ IFRS 16 on the presentation of the Consolidated Statement of Cash Flows for the period:**
Prior to the adoption of NZ IFRS 16, the total cash outflow relating to operating leases were included in cash paid to suppliers and employees within cash flows from operating activities.

Following the adoption of NZ IFRS 16, the cash outflow is dealt with as follows in the Statement of Cash Flows:

| | Year ended 30 June 2020 $000 |
|---|---|
| Total cash outflow relating to operating leases (previously included in cash paid to suppliers and employees within cash flows from operating activities) | ($2,337) |
| Cash outflow has been reallocated: | |
| — to interest expense (now included in interest paid within cash flows from operating activities) | (536) |
| — to lease liabilities (treated as repayment of lease liabilities and now included in repayment of lease liabilities within cash flows from financing activities) | (1,490) |
| — to short-term and low-value leases not included in the measurement of lease liabilities (continues to be included in cash paid to suppliers and employees within cash flows from operating activities) | (311) |
| Total cash outflow reallocated | ($2,337) |

**Accounting policy**
The Group's leases predominantly relate to buildings, forklifts and motor vehicles. A right-of-use (or leased) asset and a corresponding lease liability (reflecting the present value of remaining lease payments) are recognised at the date on which the leased asset is available for use.

Right-of-use assets are depreciated over their expected lease terms on a straight-line basis. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the asset or the site on which it is located, less any lease incentives received.

Lease liabilities are measured at the present value of the remaining lease payments, discounted using a discount rate derived from the Group's incremental borrowing rate where the interest rate implicit in the lease is not readily available. Lease liabilities are amortised using the effective interest rate method. Lease liabilities are remeasured when there is a change in future lease payments if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying value of the right-of-use asset, or it is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of short-term and low-value assets. Short-term leases are leases with a lease term of 12 months or less. Low-value leases are those for which the underlying asset is of low value. Payments associated with short-term leases and low-value leases are recognised as an expense in the Income Statement on a straight-line basis over the lease term. The Group has also elected to not separate in respect of motor vehicle leases non-lease components from lease components and instead account for each lease component and any associated non-lease component as a single lease component.

**Estimates, judgements and assumptions**
The assessment of the incremental borrowing rate used to determine the present value of lease liabilities requires significant judgement.

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

### 4. FINANCIAL PERFORMANCE

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

#### 4a. SEGMENT PERFORMANCE

**Reportable segments**
The Group's reportable and operating segments are:

— carpet sales and manufacturing (Carpet); and
— wool acquisition (Wool).

An operating segment is a component of the Group:

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

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

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

| Revenue | 2020 $000 | 2019 $000 |
|---|---|---|
| New Zealand | 65,012 | 78,316 |
| Australia | 50,071 | 52,640 |
| Rest of the world | 2,898 | 4,278 |
| | $117,981 | $135,234 |

| Non-current assets | As at 30 Jun 2020 $000 | As at 30 Jun 2019 $000 |
|---|---|---|
| New Zealand | 22,740 | 34,955 |
| Australia | 1,015 | 665 |
| | $23,755 | $35,620 |

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



# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

### 4. FINANCIAL PERFORMANCE (CONT'D)

#### 4a. SEGMENT PERFORMANCE (CONT'D)

| | Carpets sales and manufacturing | | Wool acquisition | | Total | |
|---|---|---|---|---|---|---|
| | 2020 $000 | 2019 $000 | 2020 $000 | 2019 $000 | 2020 $000 | 2019 $000 |
| External revenue | 101,135 | 113,059 | 16,846 | 22,175 | 117,981 | 135,234 |
| Inter-segment revenue | – | – | 1,788 | 3,277 | 1,788 | 3,277 |
| **Total revenue** | 101,135 | 113,059 | 18,634 | 25,452 | 119,769 | 138,511 |
| Elimination of inter-segment revenue | | | | | (1,788) | (3,277) |
| **Consolidated revenue** | | | | | $117,981 | $135,234 |
| Segment result before depreciation, restructuring related expenses and impairment | 3,484 | 7,721 | 102 | 928 | 3,586 | 8,649 |
| Depreciation - owned assets | (2,532) | (3,339) | (151) | (140) | (2,683) | (3,479) |
| Depreciation - right-of-use assets | (1,649) | – | (130) | – | (1,779) | – |
| **Segment result before restructuring and impairment** | (697) | 4,382 | (179) | 788 | (876) | 5,170 |
| Restructuring costs | (1,186) | – | – | – | (1,186) | – |
| Impairment of plant and equipment | (7,077) | (6,129) | – | – | (7,077) | (6,129) |
| Impairment of right-of-use assets | (2,909) | – | – | – | (2,909) | – |
| Impairment of goodwill | – | (2,362) | – | – | – | (2,362) |
| **Segment result after restructuring and impairment** | (11,869) | (4,109) | (179) | 788 | (12,048) | (3,321) |
| Elimination of inter-segment profits | | | | | 50 | (30) |
| Unallocated corporate costs | | | | | (1,336) | (1,543) |
| **Results from operating activities** | | | | | (13,334) | (4,894) |
| Net finance costs | | | | | (2,535) | (1,790) |
| Share of profit after tax of equity-accounted investees | | | | | – | 644 |
| Loss on sale of interest in, and property held by, equity-accounted investees | | | | | – | (11,884) |
| **(Loss)/Profit before income tax** | | | | | (15,869) | (17,924) |
| Income tax benefit/(expense) | | | | | (5,582) | 1,144 |
| **(Loss)/Profit after tax for the year** | | | | | ($21,451) | ($16,780) |

| | Carpets sales and manufacturing | | Wool acquisition | | Total | |
|---|---|---|---|---|---|---|
| | 2020 $000 | 2019 $000 | 2020 $000 | 2019 $000 | 2020 $000 | 2019 $000 |
| Reportable segment assets | 67,474 | 96,300 | 2,507 | 3,034 | 69,981 | 99,334 |
| Unallocated assets | | | | | – | – |
| **Total assets** | | | | | $69,981 | $99,334 |
| **Capital expenditure** | 2,067 | 4,328 | 52 | 377 | $2,119 | $4,705 |
| Reportable segment liabilities | 19,363 | 21,496 | 1,181 | 2,349 | 20,544 | 23,845 |
| Unallocated liabilities - Loans and borrowings | | | | | 15,800 | 20,500 |
| **Total liabilities** | | | | | $36,344 | $44,345 |

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

## 4. FINANCIAL PERFORMANCE (CONT'D)

### 4b. EARNINGS PER SHARE

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

| | 2020 | 2019 |
|---|---|---|
| (Loss)/Profit after tax attributable to shareholders of the Company ($000) | **(21,451)** | (16,780) |
| Weighted average number of ordinary shares outstanding | **68,679,098** | 68,679,098 |
| Basic and diluted EPS (cents) | **(31.2)** | (24.4) |

### 4c. REVENUE

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Sales of goods | | |
| Carpet | **98,985** | 111,412 |
| Wool fibre | **16,846** | 22,175 |
| Carpet yarn | **1,014** | 876 |
| | **116,845** | 134,463 |
| Provision of installation services | **1,136** | 771 |
| Total revenue | **$117,981** | $135,234 |

Installation contracts outstanding at balance date totalled $105,000 (2019: $52,000).

Credit terms for carpet sales are generally no later than 30 days after the month in which invoices are raised and, in the case of wool fibre, within 14 days of invoice date or on despatch whichever is the earlier.

**Accounting policies**
*Sale of goods*
Revenue is recognised when or as performance obligations are satisfied by transferring control of the products sold to the customer at the transaction price specified in the contract. Control typically transfers to the customer on the earlier of payment for, or delivery of, the product. The transaction price includes all amounts which the Group expects to be entitled to, net of goods and services tax and other indirect taxes, expected rebates and discounts.

*Provision of installation services*
Revenue from installation 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 of installation services rendered is determined by having regard to the quantity of carpet installed at balance date relative to the total quantity of carpet required for each contract.

### 4d. OTHER INCOME AND GAINS/LOSSES

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Rentals received | **4** | 4 |
| Dividends received | **1** | 2 |
| Other income | **65** | – |
| Net (loss)/gain on sale of property, plant and equipment | **(35)** | 35 |
| **Total other income and gains/losses** | **$35** | $41 |



# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

## 4. FINANCIAL PERFORMANCE (CONT'D)

### 4e. ADMINISTRATION EXPENSES

The following items of expenditure are included in administration expenses:

| | 2020 $000 | 2019 $000 |
|---|---|---|
| **Donations** | **$3** | $15 |

| | | |
|---|---|---|
| Fees paid and payable to KPMG for: | | |
| Audit of financial statements - current year | **371** | 168 |
| Audit of financial statements - additional for prior year | **61** | – |
| Tax services | **20** | 30 |
| Other services | **–** | 6 |
| Total fees paid and payable to KPMG | **$452** | $204 |

*Tax services were in respect of transfer pricing review, R&D incentive tax advice, review of income tax returns and assistance with COVID-19 wage subsidy applications.*

### 4f. PERSONNEL EXPENSES

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Directors' fees | **368** | 387 |
| Wages, salaries, bonuses and holiday pay | **28,300** | 32,694 |
| Employee termination benefits | **364** | 552 |
| Employee benefits | **2,568** | 2,692 |
| Decrease in liability for retiring allowances and long service leave | **(15)** | (8) |
| Total personnel expenses | **$31,585** | $36,317 |

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

### 4g. GOVERNMENT GRANTS

| | 2020 $000 | 2019 $000 |
|---|---|---|
| COVID-19 wage subsidy | | |
| Total wage subsidy received | **2,819** | – |
| Less amount carried forward in inventory | **(1,500)** | – |
| Wage subsidy recognised in income statement | **$1,319** | – |

The Group applied for and received $2,818,870 under the New Zealand Government's COVID-19 wage subsidy scheme. $1,319,222 of the wage subsidy was recognised in cost of sales, distribution expenses and administration expenses in the income statement, with the balance relating to the employees involved in the manufacturing of carpet carried forward in inventory at the balance date.

**Accounting policies**
Government grants which compensate the Group for expenses incurred are recognised in the income statement on a systematic basis over the period, and against the expenses, to which the grants relate when the grants become unconditional. Grants are reported on a net basis in the same line as the related expense.

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

## 4. FINANCIAL PERFORMANCE (CONT'D)

### 4h. NET FINANCE COSTS

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Interest income | – | 2 |
| Interest expense - bank borrowings | (1,531) | (1,792) |
| Interest rate swap - hedge ineffectiveness | (468) | – |
| Interest expense - lease liabilities | (536) | – |
| Net finance costs | ($2,535) | ($1,790) |

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

### 4i. INCOME TAX

| | 2020 $000 | 2019 $000 |
|---|---|---|
| **INCOME TAX EXPENSE/(BENEFIT) IN THE INCOME STATEMENT** | | |
| **Current tax expense/(benefit)** | | |
| Current year | 773 | (646) |
| Adjustment for prior years | (9) | (99) |
| | 764 | (745) |
| **Deferred tax expense/(benefit)** | | |
| Origination and reversal of temporary differences | (8,082) | (492) |
| Adjustment for prior years | 9 | 93 |
| Derecognition of deferred tax assets | 12,891 | – |
| | 4,818 | (399) |
| **Income tax expense/(benefit)** | $5,582 | ($1,144) |




# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

## 4. FINANCIAL PERFORMANCE (CONT'D)


### 4i. INCOME TAX (CONT'D)

| | 2020 $000 | 2019 $000 |
|---|---|---|
| **RECONCILIATION OF EFFECTIVE TAX RATE** | | |
| Loss after tax for the year | (21,451) | (16,780) |
| Income tax expense/(benefit) | 5,582 | (1,144) |
| **Loss excluding income tax** | ($15,869) | ($17,924) |
| Income tax using the Company's domestic tax rate of 28% (2019: 28%) | (4,443) | (5,019) |
| Impending change in legislation relating to tax depreciation on buildings | (2,940) | – |
| Derecognition of deferred tax assets | 12,891 | – |
| Share of profit after tax of equity-accounted investees | – | (180) |
| Loss on sale of interest in, and property held by, equity-accounted investees | – | 3,328 |
| Impairment of goodwill | – | 661 |
| Non-deductible expenses | 41 | 36 |
| Effect of tax rate difference in foreign jurisdiction | 33 | 35 |
| Underprovided in prior years | – | (6) |
| Other | – | 1 |
| **Income tax expense/(benefit)** | $5,582 | ($1,144) |

| | 2020 $000 | 2019 $000 |
|---|---|---|
| **INCOME TAX RECOGNISED DIRECTLY IN EQUITY** | | |
| Derivative financial instruments | 38 | (86) |
| **Income tax on income and expense recognised directly in equity** | $38 | ($86) |

**IMPUTATION CREDITS**

| | 2020 $000 | 2019 $000 |
|---|---|---|
| **Imputation credits available to shareholders of the Company** | $9,233 | $9,232 |

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

### 4. FINANCIAL PERFORMANCE (CONT'D)

#### 4i. INCOME TAX (CONT'D)

**Deferred tax assets and liabilities**
Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | 2020 $000 | 2019 $000 | 2020 $000 | 2019 $000 | 2020 $000 | 2019 $000 |
| Property, plant and equipment | 181 | – | – | (1,130) | 181 | (1,130) |
| Inventories | 100 | 644 | – | – | 100 | 644 |
| Employee benefits | 130 | 1,124 | – | – | 130 | 1,124 |
| Lease liabilities | 146 | – | – | – | 146 | – |
| Provisions | 43 | 1,193 | – | – | 43 | 1,193 |
| Tax loss carry-forwards | – | 3,625 | – | – | – | 3,625 |
| **Net tax assets/(liabilities)** | $600 | $6,586 | – | ($1,130) | $600 | $5,456 |

Deferred tax assets in respect of temporary differences and tax loss carry-forwards totalling $12,891,000 were derecognised (2019: Nil).

In arriving at this view, the Board noted the history of tax losses generated by the Group, the further losses that are expected in FY21 and FY22 as the Company executes its strategic decision to restructure the business to an all-wool and natural materials business, the significant level of estimation uncertainty in management's forecasts and the execution risk underlying the transformation and the material change in direction of the business.

Deferred tax assets at the balance date relate to the Group's Australian carpet sales operations where it is expected that there will be taxable profits in future periods to allow for the utilisation of the deferred tax assets.

Deferred tax assets have also not been recognised in respect of temporary differences and tax loss carry-forwards totalling $24,150,000 (2019: $24,150,000) relating to an Australian subsidiary that currently does not have trading activity on the basis that it is also not probable that future taxable profit will be available against which the Group can use the benefits there from, taking the total deferred tax assets unrecognised to $37,041,000 (2019: $24,150,000).

Notwithstanding the derecognition of deferred tax assets for accounting purposes, these deferred tax assets remain available to the Group for income tax purposes.




# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020


### 4. FINANCIAL PERFORMANCE (CONT'D)

#### 4i. INCOME TAX (CONT'D)

**Deferred tax assets and liabilities (cont'd)**
Movement in temporary differences during the year:

| | Balance 30 June 2019 $000 | Recognised on transition to NZ IFRS 16 $000 | Recognised in profit or loss $000 | Recognised in equity $000 | Derecognition of deferred tax assets in profit or loss $000 | Balance 30 June 2020 $000 |
|---|---|---|---|---|---|---|
| Property, plant and equipment | (1,130) | - | 4,476 | - | (3,165) | 181 |
| Right-of-use assets | - | (2,194) | 1,245 | - | 949 | - |
| Derivatives | - | - | 38 | (38) | - | - |
| Inventories | 644 | - | 612 | - | (1,156) | 100 |
| Employee benefits | 1,124 | - | (5) | - | (989) | 130 |
| Lease liabilities | - | 2,177 | (349) | - | (1,683) | 146 |
| Provisions | 1,193 | 17 | (216) | - | (950) | 44 |
| Tax loss carry-forwards | 3,625 | - | 2,272 | - | (5,897) | - |
| **Total** | $5,456 | - | $8,073 | ($38) | ($12,891) | $600 |

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

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

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

**Estimates, judgements and assumptions**
Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each balance date and adjusted to the extent that it is no longer probable that sufficient taxable profits will be available in the future to utilise the deferred tax asset. In arriving at the decision to derecognise deferred tax assets at the balance date, regard was given to the history of tax losses generated by the Group, the further losses that are expected in FY21 and FY22 as the Company executes its strategic decision to restructure the business to an all-wool and natural materials business, the significant level of estimation uncertainty in management's forecasts and the execution risk underlying the transformation and the material change in direction of the business.

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

### 5. CAPITAL AND FUNDING

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

**5a. CAPITAL MANAGEMENT**

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

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

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

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

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

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

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

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




# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020


### 5. CAPITAL AND FUNDING (CONT'D)

**5b. SHARE CAPITAL, DIVIDENDS AND RESERVES**

**Share capital**

| | 2020 | 2019 |
|---|---|---|
| **Number of ordinary shares issued** | **68,679,098** | 68,679,098 |

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

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

**Dividends**
No dividends were paid during the year (2019: Nil).

The Board has not declared a final dividend in respect of the current year ended 30 June 2020 (2019: Nil).

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

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

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

## 5. CAPITAL AND FUNDING (CONT'D)

### 5c. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings.

For more information about the Group's exposure to interest rate risks, see note 8 (Risks and financial instruments) to the financial statements.

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

The Group had total New Zealand dollar-denominated bank funding facilities of $20,000,000 at balance date, with $15,800,000 drawn down at that date (2019: $23,400,000 and $20,500,000 respectively).

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

The Group had financial covenants with the Bank that required the Group to meet, amongst other things, certain EBITDA, revenue, inventory and equity ratio targets during the year. The Group was not in breach of these financial covenants throughout the year ended 30 June 2020 as it was able to renegotiate these with the Bank in advance where required to better reflect operating conditions, including the challenges brought on by COVID-19, and financial performance as the year progressed.

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

| | Nominal interest rate 2020 % | Notional value 2020 $000 | Fair value 2020 $000 | Nominal interest rate 2019 % | Notional value 2019 $000 | Fair value 2019 $000 |
|---|---|---|---|---|---|---|
| Non-current | | – | – | | 20,500 | 20,500 |
| Current | | 15,800 | 15,800 | | – | – |
| Total secured bank loans | 7.3 | $15,800 | $15,800 | 7.0 | $20,500 | $20,500 |

The Group had no other borrowings at balance date (2019: Nil).

Certain companies in the Group have granted in favour of Bank of New Zealand, as security agent for the Bank, a first ranking composite general security deed and cross guarantee securing all obligations of the Group to the Bank, including obligations for the payment and repayment of moneys due, owing or payable by the Group to the Bank. The property-owning companies in the Group have also granted in favour of Bank of New Zealand first-ranking mortgages in respect of land and buildings as security for all obligations of the Group to the Bank, including obligations for the payment and repayment of moneys due, owing or payable by the Group to the Bank (see note 6a (Property, plant and equipment) to the financial statements).

The Group negotiated the extension of its funding facilities to 1 July 2021 prior to balance date, with reductions to facility limits of $7,500,000 on 30 September 2020, $2,500,000 on 31 December 2020 and $2,000,000 on 30 April 2021 consistent with management's inventory and debt reduction targets for FY21.

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

More information on the Group's ability to meet its debt reduction targets for FY21 can be found at note 2d (Going concern) to the financial statements.



# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

## 6. ASSETS EMPLOYED

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

### 6a. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings $000 | Plant and equipment $000 | Other assets $000 | Under construction $000 | Total $000 |
|---|---|---|---|---|---|
| **COST OR DEEMED COST** | | | | | |
| Balance at 1 July 2019 | **24,159** | **68,848** | **16,169** | **957** | **110,133** |
| Additions | **387** | **221** | **892** | **619** | **2,119** |
| Disposals | **–** | **(1,321)** | **(2,845)** | **–** | **(4,166)** |
| Transfers | **282** | **350** | **289** | **(921)** | **–** |
| **Balance at 30 June 2020** | **$24,828** | **$68,098** | **$14,505** | **$655** | **$108,086** |
| Balance at 1 July 2018 | 23,734 | 72,603 | 14,601 | 119 | 111,057 |
| Additions | 434 | 694 | 2,621 | 956 | 4,705 |
| Disposals | (9) | (4,511) | (1,109) | – | (5,629) |
| Transfers | – | 62 | 56 | (118) | – |
| **Balance at 30 June 2019** | $24,159 | $68,848 | $16,169 | $957 | $110,133 |
| **DEPRECIATION AND IMPAIRMENT LOSSES** | | | | | |
| Balance at 1 July 2019 | **2,651** | **63,938** | **13,380** | **–** | **79,969** |
| Depreciation for the year | **338** | **1,524** | **556** | **–** | **2,418** |
| Impairment losses provided | **–** | **3,874** | **2,548** | **655** | **7,077** |
| Disposals | **–** | **(1,271)** | **(2,832)** | **–** | **(4,103)** |
| **Balance at 30 June 2020** | **$2,989** | **$68,065** | **$13,652** | **$655** | **$85,361** |
| **Balance at 1 July 2018** | 2,403 | 61,444 | 12,068 | – | 75,915 |
| Depreciation for the year | 257 | 2,568 | 654 | – | 3,479 |
| Impairment losses provided | – | 4,369 | 1,760 | – | 6,129 |
| Disposals | (9) | (4,443) | (1,102) | – | (5,554) |
| **Balance at 30 June 2019** | $2,651 | $63,938 | $13,380 | – | $79,969 |
| **CARRYING AMOUNTS** | | | | | |
| **At 30 June 2020** | **$21,839** | **$33** | **$853** | – | **$22,725** |
| **At 30 June 2019** | $21,508 | $4,910 | $2,789 | $957 | $30,164 |
| **At 1 July 2018** | $21,331 | $11,159 | $2,533 | $119 | $35,142 |

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

### 6. ASSETS EMPLOYED (CONT'D)

#### 6a. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

**Auckland property**
The Group's property, plant and equipment includes the Auckland property with a carrying value of $12,877,000 that was subject to a sale and leaseback agreement subsequent to the balance date. The property was not classified as held for sale at the balance date as the sale and leaseback of the Auckland property was one of a number of funding arrangements for the Group's transformation that were being considered at that time.

The Board is not considering the  sale and leaseback of the Group's Napier and Whanganui properties at this time.

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

**Impairment**
Impairment losses in respect of plant and equipment and other assets of $7,077,000 were recognised for the year (2019: $6,129,000).

At 30 June 2020, the carrying value of the Group's net assets exceeded its market capitalisation by $36,500,000 (before impairment of right-of-use assets and plant and equipment and other assets and derecognition of deferred tax assets). In addition, the Group's strategic decision to restructure its business to an all wool and natural materials business represents a fundamental change to the business model of Cavalier and has a substantial impact on projected  cash flows and the certainty of achieving those forecasts. As a result, the Group conducted an impairment test of the carrying value of property, plant and equipment and other assets that are allocated to the carpet sales and manufacturing cash-generating unit ("Carpet CGU") at the balance date.

The Carpet CGU comprises the carpet sales and manufacturing unit which has carpet yarn spinning plants in Napier and Whanganui and a carpet tufting plant in Auckland. Because the carpet sales and manufacturing unit produces and sells largely a single product, being carpet, it is not possible for future cash inflows to be attributed to each of the three plants which are interdependent - making the carpet and sales manufacturing unit the lowest cash-generating unit.

The Carpet CGU is identical to the Carpet segment in note 4a (Segment performance) to the financial statements.

The carrying value of property, plant and equipment was tested for impairment by determining the value in use of the Carpet CGU and assessing the extent to which the carrying value of these assets exceeds their value in use, with an impairment loss recognised to the extent of that excess. The value in use of the Carpet CGU was determined by discounting Carpet CGU cash flow projections for the next five years, taking into consideration historic data and forecast economic conditions as well as the five-year modelling that had been undertaken for the transformation and the potential impact of COVID-19.



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED 30 JUNE 2020

6. ASSETS EMPLOYED (CONT'D)

6a. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

The key assumptions underlying the five-year cash flow projections are summarised below:

- a decrease in woollen carpet sales volumes by 5%, and a sell down of all non-wool inventory in FY21;
- woollen carpet sales volumes from FY22 to FY25 up on the previous year by between 22% and 37% every year as the strategic initiatives associated with the transformation to an all-wool and natural materials business model are implemented and expected to gain traction;
- woollen carpet sales prices up by 1.5% in FY22 and then remaining unchanged thereafter;
- average wool price, scoured and delivered, of $4.23/kg from FY22 to FY25;
- average NZD/AUD exchange rate of between 0.8846 and 0.9067 from FY22 to FY25;
- post-tax discount rate of 20.0% (pre-tax equivalent of 24.05%) (2019: post-tax discount rate of 12.8% (pre-tax equivalent of 16.7%);
- long term growth rate of 1.5% (2019: 1.5%).

Management believes that the key assumptions used, and estimates made, represent the most realistic assessment of the value in use of property, plant and equipment and other assets allocated to the Carpet CGU. The Group's restructuring represents a material change in direction of the business and the forecasts include a significant level of estimation uncertainty and execution risk which has been reflected in the discount rate applied to the impairment model.

Based on this assessment, all the Carpet CGU's plant and equipment and other assets with a carrying value of $7,077,000 have been impaired. The Board approved the $7,077,000 impairment of plant and equipment and other assets in addition to the $2,909,000 impairment of the Group's right-of-use assets as disclosed at note 3 (Leases and right-of-use assets) to the financial statements.

The land and buildings of the Group have not been impaired as their fair values exceed their carrying values at the balance date.

**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 5c (Loans and borrowings) to the financial statements).

**Accounting policies**
*Recognition and measurement*

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

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

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

### 6. ASSETS EMPLOYED (CONT'D)

#### 6a. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

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

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

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

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

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

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

**Impairment**
The carrying amount of property, plant and equipment and other assets is tested for impairment whenever there are indicators of impairment.

An impairment loss is recognised if the carrying amount of the cash-generating unit (being the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups) to which the property, plant and equipment and other assets is allocated exceeds its recoverable amount.

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

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

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

#### 6b. CAPITAL COMMITMENTS

The Group had outstanding commitments for the purchase of plant and equipment of $469,000 at balance date (2019: $361,000).



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED 30 JUNE 2020

### 7. WORKING CAPITAL

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

#### 7a. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at balance date comprise cash on hand and deposits held with the Bank.

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

#### 7b. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Trade receivables due from trade customers | **12,148** | 11,808 |
| Other receivables | **17** | 78 |
| Prepayments | **442** | 458 |
| | **$12,607** | $12,344 |

The Group's approach and policy with respect to, and quantitative disclosure of, credit risk are discussed at note 8 (Risks and financial instruments) to the financial statements.

Impairments losses on trade receivables and other receivables are assessed collectively and on a portfolio basis based on the number of days overdue using the expected loss model, taking into account the historical loss experienced in portfolios with a similar number of days overdue as well as current conditions and forecast of future economic conditions.

**Accounting policy**
Trade receivables and other receivables are recognised initially at transaction price and subsequently at amortised costs less impairment losses.

#### 7c. INVENTORIES

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Raw materials and consumables | **12,547** | 16,653 |
| Work in progress | **1,439** | 1,639 |
| Finished goods | **18,095** | 29,386 |
| | **$32,081** | $47,678 |
| | | |
| Inventory provision at 1 July | **2,576** | 2,307 |
| Change in provision during the year | **2,165** | 269 |
| Inventory provision at 30 June | **$4,741** | $2,576 |
| | | |
| Carrying amount of inventories subject to retention of title clauses | **$1,851** | $2,004 |

Additional inventory provisioning was taken up during the year largely against non-wool carpet inventory as a consequence of the Group's transformation to the all-wool and natural materials business model and the sell down of non-wool inventory.

## NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED 30 JUNE 2020

### 7. WORKING CAPITAL (CONT'D)

#### 7c. INVENTORIES (CONT'D)

**Accounting policies**
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.

**Estimates, judgements and assumptions**
Inventory provisions are recognised for oddments and obsolete, aged and discontinued inventories to arrive at their likely net realisable value.

Judgement and estimates are applied in identifying and categorising obsolete, aged and discontinued inventory and determining the level of provisioning that is required – with a range of factors including inventory rationalisation plans, consumer demand and trends, available distribution channels and historical sales and margin data considered.

At balance date, additional judgements and estimates were involved with respect to the provisioning of non-wool carpet inventory as a consequence of the Group's transformation to the all-wool and natural materials business model and the sell down of non-wool inventory as discussed at note 2c (General information relating to preparation of financial statements - Critical accounting estimates and judgements and significant accounting policies) to the financial statements. In determining the provision against non-wool inventory, management have assessed normal inventory turns and quantities on hand, while also considering colour and popularity of the range and the pricing strategy put in place to manage the sell-down of inventory. The provision also includes an estimate for inventory that may remain unsold towards the end of the sell-down programme and may therefore require additional discounting.

#### 7d. TRADE PAYABLES AND ACCRUALS

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Trade payables | 8,705 | 15,102 |
| Accruals | 1,912 | 1,912 |
| | $10,617 | $17,014 |



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED 30 JUNE 2020

### 8. RISKS AND FINANCIAL INSTRUMENTS

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

**MANAGEMENT COMMENTARY**

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

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

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

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

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

The Group's exposure to credit risk is mainly influenced by its customer base. As such, it is concentrated to the default risk of its industry. However, geographically, there is no credit risk concentration, with the Group's customers spread throughout New Zealand, Australia and other overseas markets. 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 amount and timing of collection of trade receivables and estimate of expected credit losses under NZ IFRS 9 Financial Instruments have been considered and included in the financial statements. There has been no indication of a significant change in amounts or timing of receipts from trade receivables as at 30 June 2020 due to the impact of COVID-19.

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

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

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

### 8. RISKS AND FINANCIAL INSTRUMENTS (CONT'D)

#### MANAGEMENT COMMENTARY (CONT'D)

**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.

As a result of the Group's transformation to an all-wool and natural materials organisation, it expects to generate funds of approximately $17,000,000 from the sell-down of non-wool inventory. Additionally, subsequent to balance date (as discussed at note 9g (Events after balance date) to the financial statements), the Group entered into a sale and leaseback agreement for its Auckland property for net proceeds of approximately $25 million. These funds will be used to fully repay the Group's bank debt outstanding as at settlement date (expected to be no later than the end of January 2021) and will provide sufficient liquidity to enable the Group to fund its transformation and settle its ongoing financial obligations for at least 12 months after the date of issuing these financial statements.

Additional information on liquidity and the Group's ability to meet its contractual obligations can be found at note 2d (Going concern) to the financial statements.

The Group's contractual cash flows and liquidity risk profile are set out in detail on page 76.

**Foreign currency risk**
The Group is exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which sales, purchases, receivables and payables are denominated. All entities in the Group have New Zealand dollars ($) as their functional currency.

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

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

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

The Group determines the existence of an economic relationship between the hedging instrument and hedged item based on the currency, amount and timing of the respective cash flows. The Group assesses whether the derivative designated in each hedging relationship is expected to be, and has been, effective in offsetting changes in cash flows of the hedged item using the critical matched terms method.

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

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

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

The Group determines the existence of an economic relationship between the hedging instrument and hedged item based on the reference interest rates, tenors, repricing dates and maturities and the notional or par amounts. The Group assesses whether the derivative designated in each hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item using the critical matched terms method.



# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

### 8. RISKS AND FINANCIAL INSTRUMENTS (CONT'D)

#### 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:

| | 2020 $000 | 2019 $000 |
|---|---|---|
| New Zealand | 7,323 | 6,121 |
| Australia | 4,431 | 5,322 |
| Other regions | 411 | 443 |
| **Trade and other receivables** | $12,165 | $11,886 |

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

| | Current | 0 – 30 days past due | 31 – 120 days past due | More than 120 days past due | Total |
|---|---|---|---|---|---|
| **2020** | | | | | |
| Expected loss rate | 0% | 0% | 0% | 56% | |
| Gross carrying amount – trade and other receivables | 11,275 | 754 | 103 | 75 | 12,207 |
| Loss allowance | – | – | – | (42) | (42) |
| **2019** | | | | | |
| Expected loss rate | 0% | 0% | 0% | 9% | |
| Gross carrying amount – trade and other receivables | 9,873 | 1,574 | 313 | 139 | 11,899 |
| Loss allowance | – | – | – | (13) | (13) |

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

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Trade and other receivables - gross | **12,207** | 11,899 |
| Individual impairment provisions | **(42)** | (13) |
| **Trade and other receivables - net** | **$12,165** | $11,886 |

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

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

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

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Balance at 1 July | (13) | (43) |
| Impaired trade receivables written off | - | - |
| Changes in impairment provision | (29) | 30 |
| Balance at 30 June | ($42) | ($13) |

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

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

### 8. RISKS AND FINANCIAL INSTRUMENTS (CONT'D)

#### QUANTITATIVE DISCLOSURES (CONT'D)

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

| | Statement of financial position $000 | Total contractual cash flows $000 | Timing of contractual cash flows: 6 months or less $000 | 6-12 months $000 | 1-2 years $000 | 2-5 years $000 | Greater than 5 years $000 |
|---|---|---|---|---|---|---|---|
| **2020** | | | | | | | |
| Secured bank loans | 15,800 | 16,206 | 6,048 | 2,158 | 8,000 | – | – |
| Trade payables | 8,705 | 8,705 | 8,705 | – | – | – | – |
| Lease liabilities | 3,569 | 3,569 | 689 | 656 | 1,104 | 1,120 | – |
| **Total non-derivative liabilities** | $28,074 | $28,480 | $15,442 | $2,814 | $9,104 | $1,120 | – |
| Interest rate swaps | 560 | 571 | 166 | 68 | 137 | 200 | – |
| Forward exchange contracts | | | | | | | |
| Inflow | | (20,478) | (16,775) | (3,703) | – | – | – |
| Outflow | | 20,496 | 16,744 | 3,752 | – | – | – |
| | 12 | 18 | (31) | 49 | – | – | – |
| **Total derivative liabilities** | $572 | | | | | | |
| **Disclosed in statement of financial position** | | | | | | | |
| Under current liabilities | 732 | | | | | | |
| Under current assets | (160) | | | | | | |
| **Total derivative liabilities** | $572 | | | | | | |
| **2019** | | | | | | | |
| Secured bank loans | 20,500 | 21,440 | 403 | 403 | 20,634 | – | – |
| Trade payables | 15,102 | 15,102 | 15,102 | – | – | – | – |
| **Total non-derivative liabilities** | $35,602 | $36,542 | $15,505 | $403 | $20,634 | – | – |
| Interest rate swaps | 621 | 575 | 156 | 114 | 135 | 154 | 16 |
| Forward exchange contracts | | | | | | | |
| Inflow | | (22,636) | (21,343) | (1,293) | – | – | – |
| Outflow | | 21,979 | 20,738 | 1,241 | – | – | – |
| | (625) | (657) | (605) | (52) | – | – | – |
| **Total derivative assets** | ($4) | | | | | | |
| **Disclosed in statement of financial position** | | | | | | | |
| Under current liabilities | 649 | | | | | | |
| Under current assets | (653) | | | | | | |
| **Total derivative assets** | ($4) | | | | | | |



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED 30 JUNE 2020

8. RISKS AND FINANCIAL INSTRUMENTS (CONT'D)

QUANTITATIVE DISCLOSURES (CONT'D)

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

| **NZD equivelent of these currencies** | AUD $000 | USD $000 | EUR$000 | Others $000 |
|---|---|---|---|---|
| **2020** | | | | |
| Trade receivables | 4,699 | 320 | 6 | – |
| Trade payables | (1, 745) | (1,130) | (1) | – |
| Net statement of financial exposure before hedging activity | 2,954 | (810) | 5 | – |
| Estimated forecase sales for which hedging is in place | 14,805 | – | – | – |
| Estimated forecast purchases for which hedging is in place | – | (320) | – | – |
| Net cash flow exposure before hedging activity | 17,759 | (1,130) | 5 | – |
| Forward exchange contracts | | | | |
| Notional amounts | (17,759) | 2.618 | – | – |
| **Net unhedged exposure** | – | $1,488 | $5 | |
| **2019** | | | | |
| Trade receivables | 5,196 | 178 | 2 | 28 |
| Trade payables | (2,412) | (4,131) | (1) | (7) |
| Net statement of financial exposure before hedging activity | 2,784 | (3,953) | 1 | 21 |
| Estimated forecase sales for which hedging is in place | 9,992 | – | – | – |
| Estimated forecast purchases for which hedging is in place | – | (5,804) | – | – |
| Net cash flow exposure before hedging activity | 12,776 | (9,757) | 1 | 21 |
| Forward exchange contracts | | | | |
| Notional amounts | (12,776) | 9,757 | – | – |
| **Net unhedged exposure** | – | – | $1 | $21 |

**Interest rate risk – re-pricing analysis**
At balance date, the interest rate profile of the Group's interest-bearing financial instruments was as follows:

| | Total $000 | 6 months or less $000 | 6-12 months $000 | 1-2 years $000 | 2-5 years $000 | Greater than 5 years $000 |
|---|---|---|---|---|---|---|
| **2020** | | | | | | |
| **Financial assets and liabilities** | | | | | | |
| Cash and cash equivalents | 1,276 | 1,276 | – | – | – | – |
| Secured bank loans | (15,800) | (15,800) | – | – | – | – |
| | (14,524) | (14,524) | – | – | – | – |
| **Related derivatives** | | | | | | |
| Effect of interest rate swaps | – | 5,000 | – | – | (5,000) | – |
| **Total** | ($14,524) | ($9,524) | – | – | ($5,000) | – |
| **2019** | | | | | | |
| **Financial assets and liabilities** | | | | | | |
| Cash and cash equivalents | 2,724 | 2,724 | – | – | – | – |
| Secured bank loans | (20,500) | (20,500) | – | – | – | – |
| | (17,776) | (17,776) | – | – | – | – |
| **Related derivatives** | | | | | | |
| Effect of interest rate swaps | – | 10,000 | – | (5,000) | (2,500) | (2,500) |
| **Total** | ($17,776) | ($7,776) | – | ($5,000) | ($2,500) | ($2,500) |

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

## 8. RISKS AND FINANCIAL INSTRUMENTS (CONT'D)

### SENSITIVITY ANALYSIS

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

For foreign exchange contracts that continue to meet the hedge accounting criteria at the balance sheet date to hedge foreign exchange exposures, it is estimated that a general change in the value of the New Zealand dollar against other foreign currencies as set out below would have no impact on the Group's profit or loss before income tax for the years ended 30 June 2020 and 2019. The impact on equity, net of tax, for these foreign exchange contracts, is disclosed in the table below:

| | Strengthen | Weaken | Strengthen | Weaken |
|---|---|---|---|---|
| | P&L | | Equity, net of tax | |
| | $000 | $000 | $000 | $000 |
| **30 June 2020** | | | | |
| NZD/AUD (+/- 5%) | **-** | **-** | **433** | **(480)** |
| NZD/USD (+/- 10%) | **-** | **-** | **-** | **-** |
| 30 June 2019 | | | | |
| NZD/AUD (+/- 10%) | - | - | 413 | (504) |
| NZD/USD (+/- 10%) | - | - | (374) | 457 |

In the year ended 30 June 2019, the Group used a general change in the value of the New Zealand dollar against other foreign currencies of 10% (including the NZD/AUD) in assessing the impact of changes in currency rates on profit or loss and OCI. The Group has used five percent for the NZD/AUD for the year ended 30 June 2020 to better reflect volatility in NZD/AUD exchange rates.

For foreign exchange contracts that do not meet the hedge accounting criteria at the balance sheet date, the estimated impact on the Group's profit or loss due to a general change in the value of the New Zealand dollar is disclosed in the table below:

| | Strengthen 10.0% | Weaken (10.0%) | Strengthen 10.0% | Weaken (10.0%) |
|---|---|---|---|---|
| | P&L | | Equity, net of tax | |
| | $000 | $000 | $000 | $000 |
| Impact of the derecognition at balance date of US dollar denominated forward exchange contracts as at 30 June 2020 | **($181)** | **$221** | **-** | **-** |
| Impact of the derecognition at balance date of US dollar denominated forward exchange contracts as at 30 June 2019 | - | - | - | - |

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

| | Increase 1% point | Decrease (1% point) | Increase 1% point | Decrease (1% point) |
|---|---|---|---|---|
| | P&L | | Equity, net of tax | |
| | $000 | $000 | $000 | $000 |
| Interest rate impact - Net FY20 | **$152** | **($152)** | **$18** | **($18)** |
| Interest rate impact - Net FY19 | ($93) | $93 | $81 | ($81) |

### HEDGING

**Interest rate hedges**
The Group has a policy of ensuring that between 25% and 75% of its exposure to changes in interest rates on borrowings is on a fixed rate basis. The critical matched terms method is used to assess hedge effectiveness at inception and on an ongoing basis. As the Group was expected to be repaying bank debt within 12 months of the balance date as a result of the sale of the Auckland property as set out at note 9g (Events after balance date) to the financial statements, it was determined that the interest rate hedges would be ineffective from the date of the sale and leaseback. There was no hedge ineffectiveness in FY19.

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



# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

## 8. RISKS AND FINANCIAL INSTRUMENTS (CONT'D)

### HEDGING (CONT'D)

The following relates to items designated as hedging instruments:

| | Notional amount | Carrying amount: Assets | Carrying amount: Liabilities | Line item in statement of financial position | Changes in the value of the hedging instrument recognised in OCI during the year | Hedge ineffectiveness recognised in profit and loss | Line item in profit and loss that includes hedge ineffectiveness | Balance in CFHR | Average rate of hedging |
|---|---|---|---|---|---|---|---|---|---|
| **2020** | $000 | $000 | $000 | | $000 | $000 | | $000 | |
| **Foreign currency risk** | | | | | | | | | |
| Forward exchange contracts – sales and receivables [1, 3] | AUD16,675 | 62 | (172) | Derivative financial instruments - assets and liabilities | (348) | – | – | (77) | 0.9390 |
| Forward exchange contracts – inventory purchases [1, 3] | USD1,746 [2] | 98 | – | Derivative financial instruments – assets | (44) | 60 | Cost of sales | – | 0.6624 |
| **Interest rate risk** | | | | | | | | | |
| Interest rate swaps [3, 4] | NZD10,000 | – | (560) | Derivative financial instruments - liabilities | (529) | (468) | Net finance costs | (92) | 2.88% - 4.88% |

*[1] 100% of notional amount expiring within 12 months of balance date*

*[2] Includes USD1,019k of foreign exchange contracts relating to inventory purchases which are deemed to be ineffective as at 30 June 2020.*

*[3] Hedge ratio 1:1*

*[4] $5 million of notional amount of interest rate swaps expiring within 6 months of balance date. Balance of $5 million expiring over the next four years. However, it was expected that the interest rate swaps would be settled within 12 months of balance date following the sale of the Auckland property - see note 9g (Events after balance date) to the financial statements.*

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

### 8. RISKS AND FINANCIAL INSTRUMENTS (CONT'D)

#### HEDGING (CONT'D)

| | Notional amount | Carrying amount | | Line item in statement of financial position | Changes in the value of the hedging instrument recognised in OCI during the year | Balance in CFHR | Hedge ratio | Average rate of hedging | Maturity date |
|---|---|---|---|---|---|---|---|---|---|
| | | Assets | Liabilities | | | | | | |
| | $000 | $000 | $000 | | $000 | $000 | | | |
| **2019** | | | | | | | | | |
| **Foreign currency risk** | | | | | | | | | |
| Forward exchange contracts – sales and receivables | AUD11,680 | 541 | - | Derivative financial instruments - assets | (40) | 271 | 1:1 | 0.9142 | 100% of notional amount expiring within 12 months of balance date |
| Forward exchange contracts – inventory purchases | USD6,605 | 112 | (28) | Derivative financial in-struments – assets and liabilities | (231) | 44 | 1:1 | 0.6770 | 100% of notional amount expiring within 12 months of balance date |
| **Interest rate risk** | | | | | | | | | |
| Interest rate swaps | NZD12,500 | - | (621) | Derivative financial instruments - liabilities | (36) | (621) | 1:1 | 2.88% - 4.92% | $2.5 million of notional amount expiring within 6 months of balance date. Balance over the next six years. |



# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

### 8. RISKS AND FINANCIAL INSTRUMENTS (CONT'D)

#### CLASSIFICATION AND FAIR VALUES

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

| | Hedging instruments $000 | Amortised cost $000 | Total carrying amount $000 | Fair value hierarchy Level 2 $000 |
|---|---|---|---|---|
| **2020** | | | | |
| **Assets** | | | | |
| Derivatives | **160** | **–** | **160** | **160** |
| Trade and other receivables | **–** | **12,165** | **12,165** | |
| Cash and cash equivalents | **–** | **1,276** | **1,276** | |
| **Total assets** | **$160** | **$13,441** | **$13,601** | |
| **Liabilities** | | | | |
| Loans and borrowings | **–** | **–** | **–** | |
| **Total non-current liabilities** | **–** | **–** | **–** | |
| Loans and borrowings | **–** | **15,800** | **15,800** | |
| Derivatives | **732** | **–** | **732** | **732** |
| Trade and other payables | **–** | **15,406** | **15,406** | |
| **Total current liabilities** | **732** | **31,206** | **31,938** | |
| **Total liabilities** | **$732** | **$31,206** | **$31,938** | |

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

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

### 8. RISKS AND FINANCIAL INSTRUMENTS (CONT'D)

**CLASSIFICATION AND FAIR VALUES (CONT'D)**

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

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

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

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

The underlying interest rate margins of loans and borrowings, which were renegotiated in June 2020, approximate current margins, and fair value approximates the present value of future principal and interest cash flows.

**DETERMINATION OF FAIR VALUES**

The fair value of an asset or a liability is measured on a recurring basis. 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.



# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

### 8. RISKS AND FINANCIAL INSTRUMENTS (CONT'D)

**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:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | **Derivative assets $000** | **Derivative liabilities $000** | Derivative assets $000 | Derivative liabilities $000 |
| Gross amounts in the statement of financial position | **160** | **(732)** | 653 | (649) |
| Amounts offset | **–** | **–** | – | – |
| **Net amounts in the statement of financial position** | **160** | **(732)** | 653 | (649) |
| Related amounts that are not offset based on ISDA | **(160)** | **160** | (649) | 649 |
| **Net amounts** | **–** | **($572)** | $4 | – |

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

## 9. OTHERS

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

### 9a. EQUITY-ACCOUNTED INVESTEES

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

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

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Carrying value at 1 July | – | 24,544 |
| Share of comprehensive income | – | 716 |
| Dividends received | – | (2,783) |
| Proceeds of sale of interest in CWH and property in CWSA | – | (10,593) |
| Loss on sale of interest in CWH and property in CWSA | – | (11,884) |
| Carrying value at 30 June | – | - |

The following tables summarise the financial information of CWH and CWSA as included in their own financial statements (unadjusted for the percentage ownership interest held) and the Group's share of net assets, profit and other comprehensive income of CWH and CWSA as at and to 30 June 2020:

| | 2020 $000 | 2020 $000 | 2019 $000 | 2019 $000 |
|---|---|---|---|---|
| | CWH | CWSA | CWH | CWSA |
| Cash and cash equivalents | – | – | – | – |
| Other current assets | – | – | – | – |
| Non-current assets | – | – | – | – |
| Total assets | – | – | – | – |
| Current liabilities | – | – | – | – |
| Non-current liabilities | – | – | – | – |
| Total liabilities | – | – | – | – |
| Net assets (100%) | – | – | – | – |
| Revenue | – | – | 13,431 | 72 |
| Depreciation | – | – | (998) | (5) |
| Net interest expense | – | – | (365) | - |
| Other expenses | – | – | (8,838) | (1) |
| Profit before income tax | – | – | 3,230 | 66 |
| Income tax expense | – | – | (974) | (18) |
| Profit after tax | – | – | 2,256 | 48 |
| Changes in fair value of cash flow hedges (net of income tax) | – | – | – | – |
| Total comprehensive income (100%) | – | – | $2,256 | $48 |
| Percentage ownership interest | 0.00% | 0.00% | 27.50% | 50.00% |



# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

## 9. OTHERS (CONT'D)

### 9a. EQUITY-ACCOUNTED INVESTEES (CONT'D)

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | $000 | $000 | $000 | $000 |
| | CWH | CWSA | CWH | CWSA |
| Share of net assets | – | – | – | – |
| Initial transaction costs | – | – | – | – |
| **Carrying value of interest in equity-accounted investees** | – | – | – | – |
| Group's share of profit after tax | – | – | 620 | 24 |
| Group's share of changes in fair value of cash flow hedges (net of income tax) | – | – | 72 | – |
| **Group's share of total comprehensive income of equity-accounted investees** | – | – | $692 | $24 |

### 9b. PROVISIONS

| | Workplace accidents $000 | Make good $000 | Onerous contracts $000 | Warranties $000 | Total $000 |
|---|---|---|---|---|---|
| Balance at 1 July 2019 | **210** | **150** | **14** | **1,040** | **1,414** |
| Provided during the year | **–** | **59** | **–** | **–** | **59** |
| Utilised during the year | **–** | **(150)** | **(14)** | **–** | **(164)** |
| Released to profit or loss during the year | **–** | **–** | **–** | **(15)** | **(15)** |
| **Balance at 30 June 2020** | **$210** | **$59** | **–** | **$1,025** | **$1,294** |
| Non-current | **–** | **54** | **–** | **530** | **584** |
| Current | **210** | **5** | **–** | **495** | **710** |
| **Balance at 30 June 2020** | **$210** | **$59** | **–** | **$1,025** | **$1,294** |
| Balance at 1 July 2018 | 210 | 1,875 | 241 | 1,006 | 3,332 |
| Provided during the year | – | – | 12 | 37 | 49 |
| Utilised during the year | – | (1,500) | (239) | (3) | (1,742) |
| Released to profit or loss during the year | – | (225) | – | – | (225) |
| **Balance at 30 June 2019** | $210 | $150 | $14 | $1,040 | $1,414 |
| Non-current | 210 | – | – | 505 | 715 |
| Current | – | 150 | 14 | 535 | 699 |
| **Balance at 30 June 2019** | $210 | $150 | $14 | $1,040 | $1,414 |

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

## 9. OTHERS (CONT'D)

### 9b. PROVISIONS (CONT'D)

**Workplace accidents**
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, with the provision for claims incurred but yet to be settled.

**Make good**
Provision for make good relates to the costs expected to be incurred in relation to make good obligations under leases entered into, with the provision utilised as the costs relating thereto are incurred or adjusted to reflect current estimates of costs to be incurred. The amount incurred during the year relates to the amount paid.

**Onerous contracts**
The provision for onerous contracts relates to operating leases in respect of premises that were surplus to requirements following the consolidation of the Cavalier Bremworth and Norman Ellison Carpets broadloom carpet businesses in 2012 and 2013, with the provision reflecting the shortfall between sub-let income and rental expense, discounted to net present value.

**Warranties**
The provision for warranties relates mainly to carpet sold during the years ended 30 June 2020 and 2019.

The provision is based on estimates made from historical warranty data associated with similar products sold by the Group. Warranties relating to the sale of carpet are standard warranties. The Group does not offer extended warranties that would be subject to a separate performance obligation.

**Accounting policies**
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.

**Estimates, judgements and assumptions**
Provision for warranties requires judgement to be applied by considering a range of factors including the nature and extent of historical claims data associated with similar products sold by the Group, the terms of the warranties built into supply contracts, consumer protection laws in key markets and the corrective actions being taken to address quality issues at production.

### 9c. EMPLOYEE BENEFITS

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Liability for retiring allowances | 96 | 96 |
| Liability for long service leave | 792 | 807 |
| **Total employee benefits** | $888 | $903 |

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

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




# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020


## 9. OTHERS (CONT'D)

### 9c. EMPLOYEE BENEFITS (CONT'D)

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

### 9d. CONTINGENCIES

The Group has granted indemnities in favour of Bank of New Zealand and National Australia Bank Limited (together, "the Bank") at balance date in respect of Bank guarantees relating to operating leases and other commitments totalling $899,000 (2019: $879,000).

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

The Group's indebtedness under the cross guarantee at balance date amounted to $15,800,000 (2019: $20,500,000).

### 9e. RELATED PARTIES

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

**As shareholders**
Some of the Directors are shareholders in the Company.

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

**As lenders or borrowers**
There were no loans to, or from, the Directors and key management personnel during the year ended 30 June 2020 (2019: Nil).

**Directors' remuneration and benefits**
The fees paid to the Directors for services in their capacity as directors totalled $368,000 during the year ended 30 June 2020 (2019: $387,000).

No other services were provided by the Directors during the year (2019: Nil).

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

| Directors' fees | Per annum | Explanatory notes |
|---|---|---|
| Non-executive Chairman of the Board | $128,100 | Inclusive of time spent on Board committees and as Chairman of Nomination Committee |
| Non-executive directors (including Deputy Chairman of the Board) | $61,000 | Inclusive of time spent on Board committees |
| Chairman of the Audit Committee | $10,000 | In recognition of additional time and responsibilities as Chairman of Audit Committee |
| Chairman of the Remuneration Committee | $5,000 | In recognition of additional time and responsibilities as Chairman of Remuneration Committee |

# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

## 9. OTHERS (CONT'D)

### 9e. RELATED PARTIES (CONT'D)

The Directors agreed to a 20% reduction in fees from 1 April 2020 to 31 July 2020 in response to the uncertain COVID-19 operating environment. G C W Biel, a long-serving Director, is entitled to a lump sum retiring allowance pursuant to an arrangement that is contained in the Company's constitution. The amount of this retiring allowance, which was set in November 2007, is $96,000. The Company decided at that time that retiring allowances would no longer be offered in respect of new Directors appointed to the Board.

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

**Key management personnel's (including the Chief Executive Officer's) remuneration and benefits**
In addition to salaries and performance-based payments, the Group also provides non-cash benefits to the Chief Executive Officer of the Company and key management personnel of the Group. These non-cash benefits may include the provision of motor vehicles, income protection and life insurances and medical insurances. The remuneration paid and payable, and the benefits provided, to the Chief Executive Officer and key management personnel (but excluding the Directors' remuneration and benefits which are set out on the previous page) comprised:

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Salaries, bonuses and leave entitlements | 2,770 | 2,525 |
| Employee benefits | 116 | 53 |
| Termination payments | 107 | 251 |
| | $2,993 | $2,829 |

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

**Other transactions**
The Group deals with many entities and organisations in the normal course of business. The Group is not aware of any of the Directors, the Chief Executive Officer or key management personnel, or their related parties, holding positions in any of these entities or organisations that result in them having control or significant influence over the financial or operating policies of these entities or organisations. The Group does not transact with the Directors, the Chief Executive Officer or key management personnel, and their related parties, other than in their capacity as directors and employees, except that they may purchase goods from the Group for their own domestic use. These purchases are on the same terms and conditions as those applying to all employees of the Group and are immaterial and personal in nature.

### 9f. GROUP ENTITIES

**Operating subsidiaries of the Group**

| | Principal activity | Country of incorporation | Interest (%) 2020 | Interest (%) 2019 |
|---|---|---|---|---|
| Cavalier Bremworth Limited | Carpet sales and manufacturing | New Zealand | **100** | 100 |
| Cavalier Bremworth Pty Limited | Carpet sales | Australia | **100** | 100 |
| Cavalier Spinners Limited | Carpet yarn sales | New Zealand | **100** | 100 |
| Elco Direct Limited | Wool acquisition | New Zealand | **100** | 100 |

**Equity-accounted investees of the Group**

| | Principal activity | Country of incorporation | Interest (%) 2020 | Interest (%) 2019 |
|---|---|---|---|---|
| CWS Assets Limited | Property owning, with property sold on 30 September 2018 as part of the sale of the Group's 27.5% interest in Cavalier Wool Holdings Limited | New Zealand | 0 | 50 |




# NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

## 9. OTHERS (CONT'D)


### 9g. EVENTS AFTER BALANCE DATE

On 2 September 2020, Cavalier advised the market that it had entered into an agreement for the sale and leaseback of its Auckland property, with the agreement conditional upon, among other things, Cavalier shareholder approval. This transaction was approved by shareholders on 17 September 2020, with settlement scheduled to take place in early October.

On 6 November 2020, Cavalier served a settlement notice on the purchaser following its failure to settle the agreement, before cancelling it on 13 November 2020 for failure of the purchaser to pay its deposit under the agreement.

On 13 November 2020, Cavalier entered into a new agreement for the sale and leaseback of the Auckland property with another third party on terms substantially the same as the previous agreement, except for the requirement of Cavalier to guarantee the obligations of its subsidiary as lessee under the lease and the increase in the purchase price of the Auckland property to $25.5 million (an increase of $900,000).

A deposit has been received, and this new agreement is now only conditional upon either Cavalier shareholder approval, which will be sought at the Annual Meeting of shareholders on 23 December 2020, or a waiver being obtained from NZX from the need to obtain such shareholder approval, given the transaction is on substantially the same, or more favourable, terms as the previous agreement which was overwhelmingly approved by shareholders at the Special Meeting in September. The deposit is refundable if Cavalier is unable to either get shareholder approval or obtain a waiver from NZX from the need to obtain shareholder approval.

Subject to the fulfilment of the condition described earlier, the Directors expect settlement of the new agreement to take place no later than the end of January 2021.

As disclosed at note 2d (General information relating to preparation of financial statements - Going concern) to the financial statements, the balance of the net proceeds of sale of the Auckland property, after repayment of bank debt, will be utilised to provide the Group with the funding required to execute its transformation into an all-wool business and natural materials organisation.

The initial term of the leaseback is 14 years plus one right of renewal of six years, with net rent at commencement date of $1,600,000 per annum and a 2.5% increase in rent per annum on each anniversary of the commencement date (except where that anniversary coincides with a market rent review date). Market rent reviews will take place on the sixth anniversary of the commencement date and on renewal date, with market rent to be no less than 100% or greater than 110% of the annual rent immediately preceding the relevant rent review date.

The Company has estimated the present value of the rental obligation in respect of the Auckland property to be around $16,000,000, based on the initial term of the leaseback of 14 years and the net rent during that initial term (but ignoring the market rent review to take place on the sixth anniversary of the commencement date), discounted at the rate of 7.5% per annum. The lease liability and right-of-use asset will be recognised in accordance with NZ IFRS 16 Leases.

### 9h. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO STANDARDS

Other than the adoption of NZ IFRS 16 Leases and the early adoption of the January 2020 amendments to NZ IAS 1 Presentation of Financial Statements during the year, there are no new standards or amendments to existing standards which have or are expected to have a material impact on the Group.

# 3

# GOVERNANCE AND OTHER DISCLOSURES

# GOVERNANCE AND OTHER DISCLOSURES
## FOR THE YEAR ENDED 30 JUNE 2020

**Contents**





# GOVERNANCE AND OTHER DISCLOSURES
## CORPORATE GOVERNANCE STATEMENT

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

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

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

A summary of Cavalier's governance actions and performance against each of the principles in the NZX Code and its compliance with the recommendations relating to each of these principles are set out on pages 93 to 102.

### PRINCIPLE 1 — CODE OF ETHICAL BEHAVIOUR

Cavalier expects its Directors, officers, employees and contractors to act legally, ethically and with integrity in a manner consistent with the Company's Code of Ethics. The Code of Ethics sets out the standard of conduct expected of Directors and employees and the Company's approach to stakeholders. It is supported by other policies and procedures including those that address continuous disclosures, confidentiality of information, conflicts of interest, reporting of concerns and share trading. Cavalier's Code of Ethics and other key policies and charters relating to corporate governance have been reviewed and aligned with the 2019 NZX Listing Rules ("Listing Rules") and the NZX Code and can be found on the Company's website www.cavcorp.co.nz.

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

**Conflicts of interest**
The Board is conscious of its obligation to ensure that Directors and employees avoid conflicts of interest between their duty to Cavalier and their own interests. Guidance is provided in the Company's Constitution, Board charter and the Code of Ethics.

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

The Directors' interest disclosures can be found on pages 103 to 105.

**Share trading policy**
Cavalier has a Share Trading Policy which, along with the Financial Markets Conduct Act 2013, imposes limitations and requirements on Directors and employees in dealing in the Company's shares. Directors and employees who are likely to have knowledge of, or access to, material information can only buy or sell Cavalier shares during permitted periods and with the written consent of the Board. They must not use their position of confidential knowledge of the Company or its business to engage in share trading for personal benefit or to provide benefit to any third party.

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

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

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

# GOVERNANCE AND OTHER DISCLOSURES
## CORPORATE GOVERNANCE STATEMENT (CONT'D)

### PRINCIPLE 2 — BOARD COMPOSITION AND PERFORMANCE

The Board's role is to add long-term shareholder value, while acting in a manner that the Directors believe is in the best interests of the Company and having regard to the interests of its employees and other stakeholders. The role and responsibilities of the Board are detailed in the Board Charter, which is reviewed at least every two years and is available on the Company's website.

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

**Board composition**
The Board comprises Directors who, collectively, have the balance of independence, skills, knowledge, experience and perspectives to meet and discharge the Board's responsibilities. Core competences and skills required include accounting and finance, law, retail, sales and marketing, health and safety, manufacturing and well-developed ability for critical and strategic analysis.

A balance of longer-serving Directors with experience in the Company and newer Directors who bring fresh perspective and insight is desirable. The Board encourages strong individual thinking and rigorous discussion and analysis when making decisions.

As at 30 June 2020, the Board comprised five Directors – George Adams (Chairman), Grant Biel, Alan Clarke, John Rae and Dianne Williams.

The profile of the Directors can be found on pages 26 and 27.

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

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

George Adams, Alan Clarke, John Rae and Dianne Williams are independent Directors of the Company as at 30 June 2020. Grant Biel is not an independent Director because he is an associate of a substantial product holder in the Company.

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

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

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

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

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



# GOVERNANCE AND OTHER DISCLOSURES
## CORPORATE GOVERNANCE STATEMENT (CONT'D)

### PRINCIPLE 2 — BOARD COMPOSITION AND PERFORMANCE (CONT'D)

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

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

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

**Evaluation of Director, Board and committee performance**
The Board, and the Board's committees, critically evaluate annually their own performance and the performance of the individual Directors. The Board, and its committees, also review annually their own processes and procedures to ensure that they are not unduly complex and are designed to assist the Board and its committees in effectively fulfilling their roles.

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

The table below sets out Director attendances at Board, Board committee and shareholder meetings for the year ended 30 June 2020.

| | Board | Audit Committee | Remuneration Committee | Special COVID-19 | Shareholder |
|---|---|---|---|---|---|
| **Total held** | **16** | **5** | **1** | **9** | **1** |
| **Attendances:** | | | | | |
| George Adams | 16/16 | 5/5 | 1/1 | 9/9 | 1/1 |
| Grant Biel | 16/16 | 5/5 | 1/1 | 9/9 | 1/1 |
| Alan Clarke | 16/16 | 5/5 | 1/1 | 9/9 | 1/1 |
| John Rae | 16/16 | 5/5 | 1/1 | 9/9 | 1/1 |
| Dianne Williams | 15/16 | 5/5 | 1/1 | 9/9 | 1/1 |

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

**Diversity and inclusion policy**
Cavalier is committed to creating a culture of 'equality of opportunity' to drive business engagement and success and:

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

The Company has a Diversity and Inclusion Policy, a copy of which is published on the Company's website. This requires the Board to establish measurable objectives for determining the success of the Policy and its 'equality of opportunity' intent covering the following:

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

# GOVERNANCE AND OTHER DISCLOSURES
## CORPORATE GOVERNANCE STATEMENT (CONT'D)

### PRINCIPLE 2 — BOARD COMPOSITION AND PERFORMANCE (CONT'D)

Pursuant to this Policy, the Company established during the year the quarterly Health and Safety Forum which involves employees across the whole business and from different backgrounds, experience and levels of the organisation. The diversity of thought, demographics and perspectives brought by this group is a valuable contribution and helps shape the overall health and safety program while also demonstrating our Diversity and Inclusion Policy in action.

The gender composition of the Company's Directors and officers are summarised below.

| | 30 June 2020 | | | 30 June 2019 | | |
|---|---|---|---|---|---|---|
| | Male | Female | Total | Male | Female | Total |
| Directors | **4/80%** | **1/20%** | **5/100%** | 4/80% | 1/20% | 5/100% |
| Officers [1] | **7/70%** | **3/30%** | **10/100%** | 5/83% | 1/17% | 6/100% |
| Direct reports of officers | **38/63%** | **22/37%** | **60/100%** | 25/66% | 13/34% | 38/100% |
| Rest of organisation | **212/59%** | **146/41%** | **358/100%** | 248/59% | 170/41% | 418/100% |
| **Total** | **261/60%** | **172/40%** | **433/100%** | 282/60% | 185/40% | 467/100% |

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

| | 30 June 2020 | | 30 June 2019 | |
|---|---|---|---|---|
| Age composition | Number | % | Number | % |
| Under 30 years of age | **47** | **11** | 63 | 13 |
| 30 to 50 years of age | **179** | **41** | 195 | 42 |
| Over 50 years of age | **207** | **48** | 209 | 45 |
| **Total** | **433** | **100** | **467** | **100** |

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



# GOVERNANCE AND OTHER DISCLOSURES
## CORPORATE GOVERNANCE STATEMENT (CONT'D)

### PRINCIPLE 3 — BOARD COMMITTEES

The Board utilises committees to enhance Board effectiveness in key areas, while retaining Board responsibility. Committees established by the Board make recommendations to the Board on those matters falling within the scope of the relevant committee charter. They do not act or make decisions unless specifically mandated by their charter or by prior Board authority to do so.

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

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

The Board appoints the Chairman of each committee. Members are chosen for the skills, experience and other qualities that they bring to the relevant committees.

Cavalier's Board committees as at 30 June 2020 were:

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

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

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

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

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

# GOVERNANCE AND OTHER DISCLOSURES
## CORPORATE GOVERNANCE STATEMENT (CONT'D)

### PRINCIPLE 4 — REPORTING AND DISCLOSURE

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

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

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

This Policy, a copy of which is published on the Company's website, sets guidelines and outlines responsibilities to safeguard the Company against inadvertent breaches of continuous disclosure obligations.

**Financial reporting**
The Audit Committee assists the Board in providing oversight of the quality and integrity of external financial reporting including the accuracy and completeness of financial statements. In preparing financial statements, the Company also ensures that its financial reporting is accompanied by sufficient explanation and is expressed in a clear and objective manner to assist investors to make informed investment decisions.

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

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

Insight into Cavalier's assessment of its business, strategy, performance and the transformational shift that is underway to position Cavalier as a design-led wool-focused company can be found on pages 1 to 25.

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

The Board notes that environmental and social responsibilities have always been a part of the Company's ethos, but these are still not sufficiently formalised to enable it to fully comply with recommendation 4.3 (relating to non-financial disclosure). A detailed framework addressing the Company's environmental and social responsibilities has been developed over the 2020 financial year. In line with the strengthening of this area, a new sustainability division was established and the appointment of a Sustainability Manager was made after balance date, with the first area of focus establishing the baseline sustainability data. The Board expects the Company to be in a position to move towards more formal measuring and monitoring of these key areas within the context of our business and will update shareholders when it reports on the 2021 financial year.



# GOVERNANCE AND OTHER DISCLOSURES
## CORPORATE GOVERNANCE STATEMENT (CONT'D)

### PRINCIPLE 5 — REMUNERATION

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

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

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

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

The remuneration payable to the Directors was last reviewed and approved by the Board on 18 January 2019, with the current scale of Directors' remuneration applying from 1 January 2019 set out on page 87 (note 9e of the notes to the financial statements).

The total remuneration paid to the Directors for the year ended 30 June 2020 was $367,745, with the details paid to each Director set out on page 105.

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

The CEO's remuneration comprises a fixed base salary, fringe benefits and a variable short-term bonus that is payable annually subject to attainment of targets. These targets include profitability and growth as well as strategy, health and safety and culture as agreed with the CEO at the commencement of the period.

No short-term bonuses were paid or payable to the CEO for the years ended 30 June 2019 and 30 June 2020.

The remuneration of the CEO can be analysed as follows:

| Year ended 30 June | Base salary | Employer superannuation contributions | Other benefits | Fixed remuneration |
|---|---|---|---|---|
| **2020** | **$493,747** | **$14,812** | **$18,110** | **$526,669** |
| 2019 | $493,747 | $14,812 | $17,708 | $526,267 |

The Board is in the process of finalising a share-based long-term incentive scheme for the CEO and selected members of the senior management team, with the scheme designed to align their interests with those of shareholders.

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

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

# GOVERNANCE AND OTHER DISCLOSURES
## CORPORATE GOVERNANCE STATEMENT (CONT'D)

### PRINCIPLE 6 — RISK MANAGEMENT

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

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

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

The material financial risks facing the business and the management of these risks are discussed at pages 73 to 83 (see note 8 of the notes to the financial statements).

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

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

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

The Health and Safety program has concentrated on clearly identifying critical risks and strengthening control effectiveness for these key critical risks. This has included physical pedestrian separation zones and upgraded plant safety features, all executed within a cycle of continuous improvement and with the input and support of our site Health and Safety committees and our newly established Health and Safety Forum.

While the Board does not have a Health and Safety Committee, there is a Health and Safety Panel – comprising George Adams, as the Board's representative, the CEO and senior management. In addition to the new position of General Manager – Health & Safety created during the 2019 financial year, further group wide resource in health and safety has been established in recognition of the value that strong health and safety performance creates.

The critical risk program continues, with work to develop leading and lag indicators around control effectiveness and organisational capability slightly delayed due to the COVID-19 disruptions.

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



GOVERNANCE AND OTHER DISCLOSURES
CORPORATE GOVERNANCE STATEMENT (CONT'D)

### PRINCIPLE 7 — AUDITORS

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

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

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

The external auditor is prohibited from undertaking any work that impairs, or is seen to impair, independence and objectivity with respect to the statutory audit. Other services provided by the external auditor for the year ended 30 June 2020 were non-audit related and were approved pursuant to the External Audit Independence Policy as having no effect on the independence or objectivity of the external auditor in relation to its statutory audit work.

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

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

KPMG was the external auditor for the 2020 financial year, having been automatically reappointed at the November 2019 Annual Meeting. The last key audit partner rotation was in respect of the statutory audit for the year ended 30 June 2016.

The fees paid to KPMG for audit and non-audit work for the year ended 30 June 2020 are set out on page 59 (see note 4e of the notes to the financial statements).

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

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

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

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

# GOVERNANCE AND OTHER DISCLOSURES
## CORPORATE GOVERNANCE STATEMENT (CONT'D)

### PRINCIPLE 8 — SHAREHOLDER RIGHTS AND RELATIONS

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

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

— periodic and continuous disclosure, including shareholder presentations, to NZX;

— half year and annual reports;

— the Investor Newsletter;

— the Annual Meeting and any other meetings of shareholders called to obtain approval for Board actions as appropriate; and

— the Company's website.

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

Cavalier:

— has a website www.cavcorp.co.nz where investors and interested stakeholders can access financial and operational information and key corporate governance information about the Company; and

— makes its notice of Annual Meeting available on its website at least 20 working days prior to the meeting.

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

**Compliance with NZX Code recommendations**
The Board considers that the corporate governance practices it has adopted and followed during the year comply with recommendations 8.1 (relating to website for investors and interested stakeholders), 8.2 (relating to investor communications with the issue) and 8.3 (relating to right of shareholders to vote on major decisions which may change the nature of the issue) of the NZX Code.

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

In relation to recommendation 8.5, Cavalier held a Special Meeting of shareholders on 17 September 2020 to approve the sale and leaseback of its Auckland property. While Cavalier had intended to give shareholders at least 20 working days' notice for the Special Meeting and had made arrangements on this basis pursuant to recommendation 8.5 of the NZX Corporate Governance Code, it was unable to meet that recommendation because of ongoing delays with the negotiation of the sale and purchase agreement and requests by the purchaser for extension of time to complete due diligence. The notice period provided complied with the minimum period under schedule 1 of the Companies Act 1993.



# GOVERNANCE AND OTHER DISCLOSURES
## DISCLOSURES UNDER THE COMPANIES ACT 1993 FOR THE YEAR ENDED 30 JUNE 2020

### DIRECTORS

The Directors of the Company as at 30 June 2020 were:

George Adams
Grant Biel
Alan Clarke
John Rae
Dianne Williams

### INTERESTS REGISTER

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

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

**Remuneration**
The scale of remuneration payable to the Directors with effect from 1 January 2019 was approved by the Board of Directors on 18 January 2019 and is set out on page 87 (note 9e of the notes to the financial statements).

**Indemnity and insurance**
The Board of Directors also authorised, during the year, the renewal of the Company's directors' and officers' liability insurance policies covering the risks arising out of the acts or omissions of the Directors and employees of the Company and its subsidiaries to the extent normally covered by such policies.

The total cost of these policies for the year ended 30 June 2021 is $110,200 (30 June 2020 $100,527) which was considered fair to the Company.

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

Directors' relevant interests in shares in the Company as at 30 June 2020 were:

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

# GOVERNANCE AND OTHER DISCLOSURES
## DISCLOSURES UNDER THE COMPANIES ACT 1993 (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

### INTERESTS REGISTER (CONT'D)

**Specific disclosures of interest**
No specific disclosures of interest were received during the year.

**General disclosures of interest**
General disclosures of interest that were current as at 30 June 2020 were:

| | | |
|---|---|---|
| **George Adams** | Apollo Brands Limited | Director |
| | Apollo Foods Limited | Executive Chairman and shareholder |
| | Arborgen Holdings Limited | Director |
| | The Apple Press Limited | Director |
| | Insightful Mobility Limited | Chairman and shareholder |
| | Mars Manufacturing Limited | Director |
| | Mix Limited | Chairman |
| | Mix Global Holdings Limited | Chairman |
| | Mix IP Limited | Director |
| | Netlogix Group Holdings Limited | Chairman |
| | Tegel Group Holdings Limited | Director |
| | Competenz | Chairman |
| **Grant Biel** | Auckland Air Charter Limited | Director |
| | Bay Cliffe Industries Limited | Director and shareholder |
| | Baycliffe Enterprises Limited | Director and shareholder |
| | Bondworth Carpets Limited | Director and shareholder |
| | Heli Harvest Limited | Director |
| | Heli Harvest (2012) Limited | Director |
| | Rural Aviation (1963) Limited | Director and shareholder |
| | Westburn Investments Limited | Director |
| **Alan Clarke** | nib nz Limited | Director |
| | nib nz Holdings Limited | Director |
| | Clarke Family Trust | Trustee and beneficiary |
| | Corder Family Trust | Trustee |
| | Jennifer Nelson Family Trust | Trustee |
| | Kempthorne Family Trust | Trustee |
| | Russell Holloway Family Trust | Trustee |
| **John Rae** | Abodo Limited | Chairman of Advisory Board |
| | Corson Grain Limited | Director |
| | Eastland Group Limited | Director |
| | Eastland Network Limited | Director |
| | Eastland Port Limited | Director |
| | F J Hawkes & Co. Limited | Director and shareholder |
| | Gisborne Airport Limited | Director |
| | Gobble Limited | Director and shareholder as nominee |
| | Jaffa Holdings Limited | Director and shareholder |
| | Kingyo Foods Limited | Director and shareholder as nominee |
| | Ngapuhi Asset Holding Company Limited | Director |
| | Smart Environmental Limited | Chairman |
| | Thos Corson Holdings Limited | Chairman |
| | Wet Gisborne Limited | Director |
| | Provincial Growth Fund | Panel Member |
| | Te Tumu Paeroa | Member of Advisory Board |
| | JR Family Trust | Trustee |



# GOVERNANCE AND OTHER DISCLOSURES
## DISCLOSURES UNDER THE COMPANIES ACT 1993 (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

### INTERESTS REGISTER (CONT'D)

**General disclosures of interest (cont'd)**

| | | |
|---|---|---|
| **Dianne Williams** | Darden Limited | Director and shareholder |
| | Darden Holdings Limited | Director and shareholder |
| | Stepchange Consulting Limited | Director and shareholder |
| | West Auckland Trust Services Limited | Director |
| | Chartered Accountants Australia New Zealand | Director |
| | Netball Northern Zone (Incorporated Society) | Director |

### DIRECTORS — REMUNERATION

The total remuneration and value of other benefits earned by each of the Directors of the Company for the year ended 30 June 2020 were:

| | Board | Audit Committee | Remuneration Committee | Nomination Committee | Other benefits | Total |
|---|---|---|---|---|---|---|
| George Adams | $57,950 | $9,500 | – | – | – | $67,450 |
| Grant Biel | $57,950 | – | – | – | – | $57,950 |
| Alan Clarke | $121,695 | – | – | – | – | $121,695 |
| John Rae | $57,950 | – | $4,750 | – | – | $62,700 |
| Dianne Williams | $57,950 | – | – | – | – | $57,950 |
| **Total** | **$353,495** | **$9,500** | **$4,750** | **–** | **–** | **$367,745** |

[1]The Directors' fees earned reflect the 20% reduction in fees from 1 April to 30 June 2020 the Directors agreed to in response to the uncertain COVID-19 operating environment

### EMPLOYEES - REMUNERATION

The number of employees of the Company and its subsidiaries whose remuneration and value of other benefits for the year ended 30 June 2020 fall into the various brackets specified by the Companies Act 1993 is as follows:

| Remuneration and value of other benefits ($) | Number of employees |
|---|---|
| 100,000 – 109,999 | 8 |
| 110,000 – 119,999 | 13 |
| 120,000 – 129,999 | 9 |
| 130,000 – 139,999 | 5 |
| 140,000 – 149,999 | 1 |
| 150,000 – 159,999 | 4 |
| 160,000 – 169,999 | 4 |
| 170,000 – 179,999 | 2 |
| 180,000 – 189,999 | 2 |
| 190,000 – 199,999 | 2 |
| 200,000 – 209,999 | 1 |
| 210,000 – 219,999 | – |
| 220,000 – 229,999 | 1 |

| Remuneration and value of other benefits ($) | Number of employees |
|---|---|
| 230,000 – 239,999 | – |
| 240,000 – 249,999 | 1 |
| 250,000 – 259,999 | – |
| 260,000 – 269,999 | – |
| 270,000 – 279,999 | – |
| 280,000 – 289,999 | – |
| 290,000 – 299,999 | – |
| 300,000 – 309,999 | – |
| 310,000 – 319,999 | – |
| 320,000 – 329,999 | – |
| 330,000 – 339,999 | 1 |
| 520,000 – 530,000 | 1 |
| **Total number of employees** | **56** |

# GOVERNANCE AND OTHER DISCLOSURES
## DISCLOSURES UNDER THE COMPANIES ACT 1993 (CONT'D)
## FOR THE YEAR ENDED 30 JUNE 2020

### DONATIONS

Refer to page 59 (note 4e of the notes to the financial statements).

### AUDIT FEES

Refer to page 59 (note 4e of the notes to the financial statements).

### SUBSIDIARY COMPANY DIRECTORS

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

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

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

There were no entries in the interests register in respect of any of the subsidiary company directors. The remuneration and value of other benefits of these directors is disclosed under employees' remuneration on page 105.



# GOVERNANCE AND OTHER DISCLOSURES
## DISCLOSURES UNDER THE NEW ZEALAND EXCHANGE LISTING RULES
## AS AT 30 SEPTEMBER 2020

### ANALYSIS OF SHAREHOLDINGS

| | Number of shareholders | % | Shares held | % |
|---|---|---|---|---|
| **Size of shareholdings** | | | | |
| Up to 199 | 99 | 3.23 | 8,403 | 0.01 |
| 200 – 499 | 130 | 4.24 | 44,721 | 0.07 |
| 500 – 999 | 224 | 7.30 | 155,982 | 0.23 |
| 1,000 – 1,999 | 526 | 17.14 | 721,877 | 1.05 |
| 2,000 – 4,999 | 809 | 26.37 | 2,496,994 | 3.64 |
| 5,000 – 9,999 | 530 | 17.28 | 3,527,108 | 5.14 |
| 10,000 – 49,999 | 614 | 20.01 | 12,253,295 | 17.84 |
| 50,000 – 99,999 | 63 | 2.05 | 4,054,226 | 5.90 |
| Over 99,999 | 73 | 2.38 | 45,416,492 | 66.12 |
| | **3,068** | **100.00** | **68,679,098** | **100.00** |
| **Location of shareholders** | | | | |
| New Zealand | 2,945 | 95.99 | 67,227,362 | 97.89 |
| Australia | 72 | 2.35 | 978,743 | 1.42 |
| Other | 51 | 1.66 | 472,993 | 0.69 |
| | **3,068** | **100.00** | **68,679,098** | **100.00** |

| | Shares held | % |
|---|---|---|
| **Top 20 shareholders** | | |
| Marama Trading Limited | 9,610,718 | 13.99 |
| Rural Aviation (1963) Limited | 8,567,642 | 12.47 |
| Brian Edward Woolf | 3,000,000 | 4.37 |
| FNZ Custodians Limited | 2,897,826 | 4.22 |
| Gregory John Muir | 1,225,000 | 1.78 |
| New Zealand Depository Nominee Limited (Account 1 Cash Account) | 1,093,229 | 1.59 |
| Forsyth Barr Custodians Limited (1-Custody) | 1,033,008 | 1.50 |
| Fergus David Elliott Brown | 1,000,000 | 1.46 |
| F B Trustee Limited (Fergus Brown Family Account) | 1,000,000 | 1.46 |
| Ian David McIlraith | 1,000,000 | 1.46 |
| Masfen Securities Limited | 787,500 | 1.15 |
| JPMorgan Chase Bank NA NZ Branch – Segregated Clients Account | 735,008 | 1.07 |
| Percy Keith McFadzean | 715,000 | 1.04 |
| Andrew John Fleck | 700,000 | 1.02 |
| Accident Compensation Corporation | 637,398 | 0.93 |
| FNZ Custodians Limited (DTA Non Resident Account) | 601,778 | 0.88 |
| Graham James Munro and Zita Lillian Munro | 575,000 | 0.84 |
| Maarten Arnold Janssen | 572,516 | 0.83 |
| Peter William Beasley and Anne Kathryn Beasley and Kevin Harborne (Waitemata Ventures Account) | 500,000 | 0.73 |
| Device Co Pty Limited (Snedricks Super Fund Account) | 439,873 | 0.64 |
| | **36,691,496** | **53.42** |

### NZX WAIVER RELIED ON

Cavalier relied on the NZX Class Waiver from NZX Listing Rules 3.5.1 and 3.6.1, dated 3 April 2020, which provided issuers with an additional 30 days to release their full year announcements and an additional two months for the preparation and release of their annual report.

# GOVERNANCE AND OTHER DISCLOSURES
## DISCLOSURES UNDER THE FINANCIAL MARKETS CONDUCT ACT 2013 AS AT 30 JUNE 2020

### SUBSTANTIAL HOLDINGS

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

| | Number of ordinary shares (being the only class of listed voting securities) where relevant interest exists |
|---|---|
| A C Timpson Trust | 9,610,718 |
| Marama Trading Limited | 9,610,718 |
| G C W Biel | 8,467,642 |
| Rural Aviation (1963) Limited | 8,467,642 |

The total number of ordinary shares, being the only class of listed voting securities in the Company, as at 30 June 2020 was 68,679,098.

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



# GOVERNANCE AND OTHER DISCLOSURES
## SHAREHOLDER INFORMATION

### ANNUAL MEETING OF SHAREHOLDERS

| | |
|---|---|
| **Time and date** | 2 p.m., Wednesday 23 December 2020 |
| **Venue** | Online at www.web.lumiagm.com |

### CORPORATE CALENDAR

| | |
|---|---|
| **23 December 2020** | 2020 Annual Meeting of shareholders |
| **31 December 2020** | End of 2021 half year |
| **Mid-February 2021** | Announcement of 2021 half year result |
| **Mid-March 2021** | Release of 2021 half year report |
| **30 June 2021** | End of 2021 financial year |
| **Late August 2021** | Announcement of 2021 annual result |
| **End of September 2021** | Release of 2021 Annual Report |
| **October 2021** | Period for director nominations |

# GOVERNANCE AND OTHER DISCLOSURES
## TREND STATEMENT

| | 2020 $000 | 2019 $000 | 2018 $000 | 2017 $000 | 2016 $000 | 2015 $000 | 2014 $000 |
|---|---|---|---|---|---|---|---|
| **Financial Performance** | | | | | | | |
| **Operating revenue** | **$117,981** | $135,234 | $148,120 | $156,120 | $190,371 | $215,728 | $200,642 |
| **EBITDA (normalised)** | **2,300** | 7,076 | 9,998 | 2,572 | 12,275 | 8,517 | 14,609 |
| Depreciation - owned assets | **(2,683)** | (3,479) | (3,561) | (3,251) | (3,352) | (5,862) | (5,849) |
| Depreciation - right-of-use assets | **(1,779)** | – | – | – | – | – | – |
| **EBIT (normalised)** | **(2,162)** | 3,597 | 6,437 | (679) | 8,923 | 2,655 | 8,760 |
| Net interest expense | **(2,535)** | (1,790) | (2,798) | (2,936) | (3,374) | (3,948) | (3,484) |
| Share of profit after tax of equity-accounted investees (normalised) | **–** | 644 | 1,419 | 797 | 2,670 | 2,034 | 2,044 |
| **(Loss)/Profit before income tax (normalised)** | **(4,697)** | 2,451 | 5,058 | (2,818) | 8,219 | 741 | 7,320 |
| Income tax (expense)/benefit | **1,240** | (572) | (1,084) | 962 | (1,906) | 454 | (1,530) |
| **(Loss)/Profit after tax (normalised)** | **(3,457)** | 1,879 | 3,974 | (1,856) | 6,313 | 1,195 | 5,790 |
| Abnormal costs (after tax) | **(17,994)** | (18,659) | 107 | (268) | (3,198) | (26,910) | – |
| **(Loss)/Profit after tax attributable to shareholders of the Company (GAAP)** | **(21,451)** | (16,780) | 4,081 | (2,124) | 3,115 | (25,715) | 5,790 |
| Ordinary dividends paid | **–** | – | – | – | – | – | (4,785) |
| **(Loss)/Profit after dividends** | **($21,451)** | ($16,780) | $4,081 | ($2,124) | $3,115 | ($25,715) | $1,005 |
| **Financial Position** | | | | | | | |
| Shareholders' equity | **33,637** | 54,989 | 72,222 | 67,890 | 69,361 | 66,184 | 92,959 |
| Loans and borrowings - term portion | **–** | 20,500 | 27,500 | 35,000 | 37,700 | 45,000 | 61,220 |
| Term liabilities | **3,696** | 1,618 | 2,029 | 3,728 | 4,461 | 4,938 | 6,363 |
| Loans and borrowings – current portion | **15,800** | – | 4,000 | 6,500 | – | 11,767 | – |
| Current liabilities | **16,848** | 22,227 | 27,253 | 25,739 | 35,854 | 41,237 | 37,518 |
| **Shareholders' equity and total liabilities** | **$69,981** | $99,334 | $133,004 | $138,857 | $147,376 | $169,126 | $198,060 |
| Property, plant and equipment | **22,725** | 30,164 | 35,142 | 37,123 | 36,820 | 47,910 | 63,900 |
| Right-of-use assets | **430** | – | – | – | – | – | – |
| Investment in equity-accounted investees | **–** | – | 24,544 | 23,490 | 23,175 | 24,937 | 25,900 |
| Goodwill and other intangibles | **–** | – | 2,362 | 2,362 | 2,362 | 2,362 | 7,794 |
| Deferred tax asset | **600** | 5,456 | 4,971 | 5,532 | 3,496 | 1,388 | 3,107 |
| **Non-current assets** | **23,755** | 35,620 | 67,019 | 68,507 | 65,853 | 76,597 | 100,701 |
| Cash and cash equivalents | **1,276** | 2,724 | 2,111 | 1,255 | 1,200 | 2,834 | 2,375 |
| Current assets | **44,950** | 60,990 | 63,874 | 69,095 | 80,323 | 89,695 | 94,984 |
| **Total assets** | **$69,981** | $99,334 | $133,004 | $138,857 | $147,376 | $169,126 | $198,060 |



# GOVERNANCE AND OTHER DISCLOSURES
## TREND STATEMENT (CONT'D)

| | 2020 $000 | 2019 $000 | 2018 $000 | 2017 $000 | 2016 $000 | 2015 $000 | 2014 $000 |
|---|---|---|---|---|---|---|---|
| **Abnormal items (after tax)** | | | | | | | |
| Impairment of carpet tile business assets | **–** | – | – | – | – | (9,132) | – |
| Impairment of plant and equipment | **(5,095)** | (4,413) | – | – | (1,573) | (4,344) | – |
| Impairment of right-of-use assets | **(2,094)** | – | – | – | – | – | – |
| Impairment of intangible assets | **–** | (2,362) | – | – | – | (5,432) | – |
| Impending change in legislation relating to tax depreciation on buildings | **2,940** | – | – | – | – | – | – |
| Derecognition of deferred tax assets | **(12,891)** | – | – | – | – | (6,771) | – |
| Restructuring costs | **(854)** | – | 136 | (4,542) | (3,222) | (711) | – |
| Reversal of impairment of fixed assets | **–** | – | 99 | 1,083 | – | – | – |
| Gain on sale of property | **–** | – | – | – | 2,035 | – | – |
| Scour merger costs | **–** | – | (128) | (738) | (438) | (520) | – |
| Gain on merger and dilution of equity-accounted investee | **–** | – | – | 3,929 | – | – | – |
| Loss on sale of interest in, and property held by, equity-accounted investees | **–** | (11,884) | – | – | – | – | – |
| **Total** | **($17,994)** | ($18,659) | $107 | ($268) | ($3,198) | ($26,910) | – |

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

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

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

# GOVERNANCE AND OTHER DISCLOSURES
## TREND STATEMENT (CONT'D)

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|---|
| **Financial Ratios and Summary** | | | | | | | |
| **Use of Funds and Return on Investment** | | | | | | | |
| Return on average shareholders' equity (normalised) | **(7.8%)** | 3.0% | 5.7% | (2.7%) | 9.3% | 1.5% | 6.2% |
| Basic earnings per ordinary share (normalised) | **(5.0c)** | 2.7c | 5.8c | (2.7c) | 9.2c | 1.7c | 8.5c |
| **Financial Structure** | | | | | | | |
| Net tangible asset backing per ordinary share | **$0.47** | $0.72 | $0.94 | $0.87 | $0.92 | $0.91 | $1.19 |
| Equity ratio | **48.1%** | 55.4% | 54.3% | 48.9% | 47.1% | 39.1% | 46.9% |
| Net interest-bearing debt : equity ratio | **30:70** | 24:76 | 29:71 | 37:63 | 34:66 | 45:55 | 39:61 |
| Net interest cover (normalised) (times) | **N/A** | 2.0 | 2.4 | 1.5 | 4.4 | 1.5 | 2.5 |
| **Return to Shareholders** | | | | | | | |
| Dividends paid per ordinary share (excluding supplementary) | **–** | – | – | – | – | – | 7.0c |
| Dividend imputation | **–** | – | – | – | – | – | 100% |
| Ordinary dividend cover (normalised) (times) | **–** | – | – | – | – | – | 1.2 |
| Supplementary dividends paid per ordinary share | **–** | – | – | – | – | – | 1.24c |
| **Share Price** | | | | | | | |
| 30 June | **$0.22** | $0.32 | $0.62 | $0.35 | $0.76 | $0.36 | $1.33 |
| 52 week high | **$0.38** | $0.68 | $0.63 | $0.95 | $0.77 | $1.36 | $2.03 |
| 52 week low | **$0.16** | $0.31 | $0.27 | $0.33 | $0.35 | $0.31 | $1.33 |
| **Market Capitalisation ($000)** | | | | | | | |
| 30 June | **$15,109** | $21,977 | $42,581 | $24,038 | $52,196 | $24,724 | $91,343 |
| **Capital Expenditure and Depreciation ($000)** | | | | | | | |
| Capital expenditure | **$2,119** | $4,705 | $1,622 | $2,123 | $2,076 | $2,564 | $2,494 |
| Depreciation - owned assets | **$2,683** | $3,479 | $3,561 | $3,251 | $3,352 | $5,862 | $5,849 |
| Depreciation - right-of-use assets | **$1,779** | – | – | – | – | – | – |



GOVERNANCE AND OTHER DISCLOSURES
TREND STATEMENT (CONT'D)

### GLOSSARY OF FINANCIAL TERMS

**EBITDA** — Earnings before interest, tax, depreciation and amortisation

**EBIT** — Earnings before interest and tax

**EBITDA (normalised)** — Earnings before abnormal costs, interest, tax, depreciation and amortisation

**EBIT (normalised)** — Earnings before abnormal costs, interest and tax

**Net assets** — Total assets less total liabilities

### USE OF FUNDS AND RETURN ON INVESTMENT

**Return on average shareholders' equity (normalised)** — $\frac{\text{Profit/(Loss) after tax (normalised)}}{\text{Average shareholders' equity}}$

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

### FINANCIAL STRUCTURE

**Net tangible asset backing per ordinary share** — $\frac{\text{Net assets less goodwill and other intangibles}}{\text{Number of ordinary shares on issue at balance date}}$

**Equity ratio** — $\frac{\text{Shareholders' equity}}{\text{Shareholders' equity and total liabilities}}$

**Net interest bearing debt : equity ratio** — Interest-bearing debt less cash and cash equivalents : 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)** — $\frac{\text{Profit/(Loss) after tax attributable to shareholders of the Company (normalised)}}{\text{Ordinary dividends paid}}$

# GOVERNANCE AND OTHER DISCLOSURES
## DISCLOSURE OF NON-GAAP FINANCIAL INFORMATION

The Directors acknowledge that the Annual Report, including the Trend Statement from pages 110 to 113, contains financial information that is non-GAAP (Generally Accepted Accounting Practice) and therefore falls within the Financial Markets Authority's guidance note on "Disclosing non-GAAP financial information" issued in July 2017.

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

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

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

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

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

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

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



# GOVERNANCE AND OTHER DISCLOSURES
## DISCLOSURE OF NON-GAAP FINANCIAL INFORMATION (CONT'D)

### RECONCILIATION OF GAAP-COMPLIANT TO NON-GAAP-COMPLIANT MEASURES OF PROFIT/LOSS AFTER TAX

| | YEAR ENDED 30 JUNE 2020 | | | YEAR ENDED 30 JUNE 2019 | | |
|---|---|---|---|---|---|---|
| | GAAP $000 | Adjustments $000 | Normalised $000 | GAAP $000 | Adjustments $000 | Normalised $000 |
| **Revenue** | **$117,981** | **–** | **$117,981** | $135,234 | – | $135,234 |
| EBITDA | **(8,872)** | **11,172** | **2,300** | (1,415) | 8,491 | 7,076 |
| Depreciation - owned assets | **(2,683)** | **–** | **(2,683)** | (3,479) | – | (3,479) |
| Depreciation - right-of-use assets | **(1,779)** | **–** | **(1,779)** | – | – | – |
| EBIT | **(13,334)** | **11,172** | **(2,162)** | (4,894) | 8,491 | 3,597 |
| Net interest expense | **(2,535)** | **–** | **(2,535)** | (1,790) | – | (1,790) |
| Share of profit after tax of equity-accounted investees | **–** | **–** | **–** | 644 | – | 644 |
| Loss on sale of interest in, and property held by, equity-accounted investees | **–** | **–** | **–** | (11,884) | 11,884 | – |
| (Loss)/Profit before tax | **(15,869)** | **11,172** | **(4,697)** | (17,924) | 20,375 | 2,451 |
| Tax benefit/(expense) | **(5,582)** | **6,822** | **1,240** | 1,144 | (1,716) | (572) |
| **(Loss)/Profit after tax** | **(21,451)** | **17,994** | **(3,457)** | (16,780) | 18,659 | 1,879 |
| Abnormal net loss after tax | | **(17,994)** | **(17,994)** | | (18,659) | (18,659) |
| **(Loss)/Profit after tax (GAAP)** | | **–** | **($21,451)** | | – | ($16,780) |

**Analysis of abnormal items**

| | (Loss)/Profit before tax $000 | Tax effect $000 | (Loss)/Profit after tax $000 | (Loss)/Profit before tax $000 | Tax effect $000 | (Loss)/Profit after tax $000 |
|---|---|---|---|---|---|---|
| Restructuring costs | (1,186) | 332 | (854) | – | – | – |
| Impairment of plant and equipment | (7,077) | 1,982 | (5,095) | (6,129) | 1,716 | (4,413) |
| Impairment of right-of-use assets | (2,909) | 815 | (2,094) | | – | – |
| Impending change in legislation relating to tax depreciation on buildings | – | 2,940 | 2,940 | | – | – |
| Derecognition of deferred tax assets | – | (12,891) | (12,891) | | – | – |
| Impairment of goodwill | – | – | – | (2,362) | – | (2,362) |
| Loss on sale of interest in, and property held by, equity-accounted investees | – | – | – | (11,884) | – | (11,884) |
| | **($11,172)** | **($6,822)** | **($17,994)** | **($20,375)** | **$1,716** | **($18,659)** |

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

| **Year ended 30 June 2020** | GAAP-compliant reported (loss)/profit after tax | Reverse abnormal items (net of tax) | Non-GAAP-compliant normalised (loss)/profit after tax |
|---|---|---|---|
| Loss attributable to shareholders ($000) | **($21,451)** | **$17,994** | **($3,457)** |
| Weighted average number of ordinary shares | **68,679,098** | | **68,679,098** |
| Loss per share (basic and diluted) (cents) | **(31.2)** | | **(5.0)** |
| **Year ended 30 June 2019** | | | |
| (Loss)/Profit attributable to shareholders ($000) | **($16,780)** | **$18,659** | **$1,879** |
| Weighted average number of ordinary shares | **68,679,098** | | **68,679,098** |
| (Loss)/Earnings per share (basic and diluted) (cents) | **(24.4)** | | **2.7** |

# CORPORATE DIRECTORY

## BOARD OF DIRECTORS

**George Adams** DipFSA(Hons), FCA, CFInstD
*Independent*
Chairman of the Board of Directors
Chairman of Nomination Committee
Member of Audit and Remuneration Committees

**Grant Biel** B.E. (Mech.)
*Non-independent*
Member of Audit, Remuneration and Nomination Committees

**Alan Clarke** B.Sc.(Hons), MBA, CFInstD
*Independent*
Member of Audit, Remuneration and Nomination Committees

**Paul Izzard** BA (Hons) Interior Design
*Independent*
Member of Audit and Remuneration Committees
Appointed 20 November 2020

**John Rae** B.Com., LLB, CMInstD
*Independent*
Chairman of Audit Committee
Member of Remuneration and Nomination Committees

**Dianne Williams** B.Com., MBA, CMInstD
*Independent*
Chairman of Remuneration Committee
Member of Audit and Nomination Committees

## CHIEF EXECUTIVE OFFICER

**Paul Alston** BBS, CA

## CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY

**Victor Tan** CA, FCIS

## FOUNDING SHAREHOLDER

The late **Anthony Charles Timpson** ONZM

## REGISTERED OFFICE

7 Grayson Avenue, Auckland 2104
P O Box 97040, Auckland 2241

Telephone: 64-9-277 6000
Facsimile: 64-9-279 4756

## SHARE REGISTRAR

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

## AUDITORS

KPMG

## LEGAL ADVISORS

Russell McVeagh

## BANKERS

Bank of New Zealand
National Australia Bank Limited

## CORPORATE

**General Manager Health and Safety**
Kirstine Hulse

**Group Financial Controller**
Linda Arbuckle

**Group Information Services Manager**
Trevor Jones

**Transformation Manager**
Karen Urwin

## CARPET OPERATION

**General Manager New Zealand Sales**
Dean Chandler

**General Manager Marketing and International Operations**
Rochelle Flint

**Auckland Carpet Tufting Plant Manager**
Jason Howearth

**Napier Yarn Spinning Plant Manager**
Karl Thin

**Whanganui Yarn Spinning Plant Manager**
Andrew Karl

## WOOL OPERATION

**General Manager Wool Acquisition**
Shane Eades

## WEBSITES

**Corporate**
cavcorp.co.nz

**Carpet Operation**
bremworth.co.nz
bremworth.com.au

**Wool Operation**
elcodirect.co.nz

**Share Registrar**
computershare.co.nz/investorcentre

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