CAVALIER CORPORATION LIMITED

2011/12 ANNUAL REPORT

Year Ended ***30 June 2012***




CAVALIER
CORPORATION

VALUES

To maximise returns to shareholders in a sustainable and consistent manner, whilst having regard to the interests of our other stakeholders.

To be a good corporate citizen in terms of social and environmental responsibilities, and to conduct business with consistency and absolute integrity at all times.

VISION

To be Australasia's best carpet manufacturer and wool processor, with each business unit outperforming its competitors in earnings,
service, product innovation and quality.

To achieve growth by leveraging off our experience and knowledge in core and allied businesses where we have distinct and proven competitive advantages.

MISSION

To be the market leader, and the most preferred supplier, by focusing on brand values, superior product quality and innovation, and outstanding customer service.

To foster an organisational culture dedicated to best practice and continuous improvement in product quality, customer service and operational efficiencies.

To attract and retain the very best people and to provide them with the environment to develop and grow.

To develop long-term alliances, with key business partners, that are strategic to our business units.

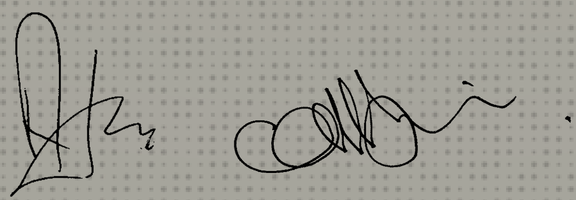
To ensure that returns from current and new investments in our existing business units exceed the Group's cost of capital.

To actively seek and evaluate growth pportunities that best fit our investment criteria and risk profile.

LEGATO
By Cavalier Bremworth

PROJECT NAME: The Alice Room – Cloudland
LOCATION: Fortitude Valley, Brisbane, Queensland
END USE: Hospitality
ONTERA PRODUCT: Envisions (Custom design)
PROJECT OVERVIEW : Inspired by the Alice in Wonderland story

As required by section 211(1)(k) of the Companies Act 1993, the 2012 Annual Report of Cavalier Corporation Limited is signed on behalf of the Board on 14 September 2012 by:



A M JAMES – Chairman   C A MCKENZIE – Managing Director

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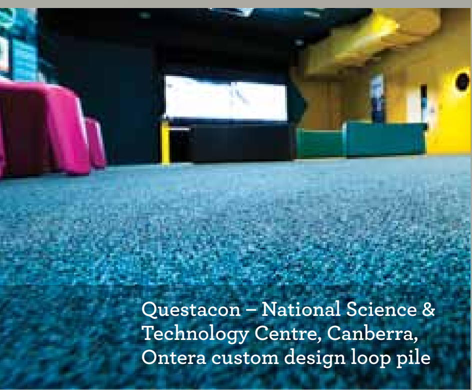


Questacon – National Science & Technology Centre, Canberra, Ontera custom design loop pile

PARITEA
By Cavalier Bremworth

2011/12 IN BRIEF

REVENUE

$12 million/5% drop from $229 million to $217 million, with carpet revenue down $26 million offset by wool and yarn revenue which was up $14 million

NORMALISED TAX-PAID EARNINGS

75% reduction from $17.3 million to $4.3 million as a result of the very soft market conditions for our carpet business on both sides of the Tasman, with volumes and margins under pressure

REPORTED EARNINGS AFTER TAX

Loss of $1.6 million as a consequence of $5.9 million after tax costs (or $8.2 million pre-tax) relating to the business restructuring undertaken during the year

2011/12 BUSINESS IMPROVEMENT INITIATIVES

ALIGNING PRODUCTION CAPACITY WITH REDUCED SALES DEMAND

…. and reducing operating costs in the process

REDUCING OVER-CAPACITY IN THE YARN SPINNING OPERATIONS AND IMPROVING OPERATIONAL EFFICIENCE

…. with the closure of one of our three spinning mills

INVENTORY REDUCTION PROGRAMME

…. which resulted in inventory down $10 million during the year

CONSOLIDATION OF WAREHOUSING AND DISTRIBUTION

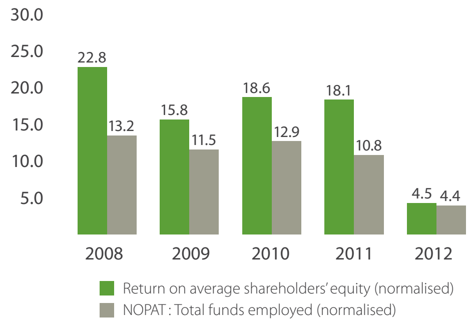
…. by combining the two Auckland-based warehousing and distribution operations for the broadloom carpet business

FINANCIAL OVERVIEW

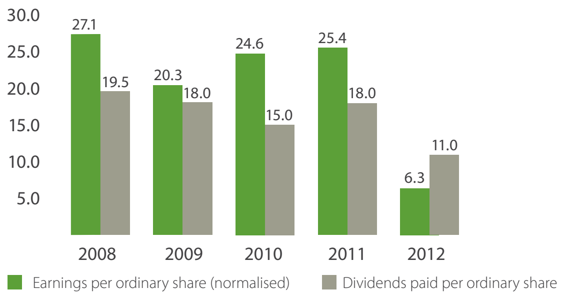
Year Ended 30 June 2012

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

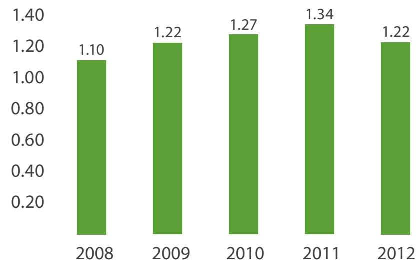
Return on average shareholders' equity and NOPAT: Total funds employed (%)[1]



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

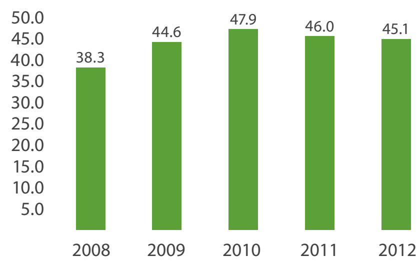


Net tangible asset backing per ordinary share ($)



Total assets employed and Shareholders' equity ($ millions)

Proprietorship ratio (%)



[1] All references to "normalised" are to the normalised results used in the underlying calculations. The normalised results are derived from the reported results of the financial statements, adjusted for one-off items.

A SELECTION OF RECENT INITIATIVES

LAUNCH OF ONTERA MODULAR CARPETS' HARMONY COLLECTION

Inspired by the innate human attraction to nature's ecosystem, the Harmony Collection showcases a multitude of carpet designs and textures across four distinctive colour palettes

ONTERA MODULAR CARPETS' MAXPRO SHEET PRODUCT LAUNCH

Specifically designed and engineered for the healthcare and aged-care markets, the launch of Ontera's Maxpro™ System range of sheet products sets new benchmarks in appearance, performance and ease of installation

LAUNCH OF CAVALIER CORPORATION'S NEW INVESTOR RELATIONS WEBSITE

Delivering clear and concise information to our existing and prospective stakeholders

UNVEILING OF FLASHBAC, CAVALIER BREMWORTH'S RECYCLED WOOL CARPET BACKING

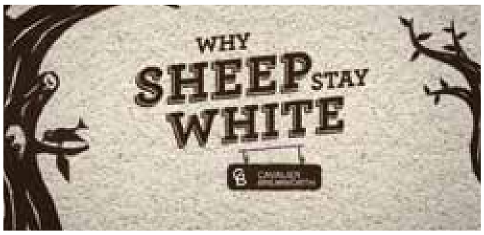
A world-first carpet backing made from 100% recycled wool carpet

ONTERA MODULAR CARPETS' *DANCE FOR LIFE*

Ontera was one of three founding partners that hosted the inaugural *Dance For Life* event where the design community came together to dance the night away and raise funds for the Inspire Foundation

CAVALIER BREMWORTH RETURNS TO TV WITH THE LAUNCH OF NEW TV COMMERCIALS

New campaign emphasising that wool remains the carpet fibre consumers can trust because it has passed the toughest tests before it was made into carpet



A.R.T. "RANDOM DESIGN" PRODUCT BY ONTERA MODULAR CARPETS

Anomalous Repeat Technology (A.R.T.) is Ontera's proprietary design technique that delivers sophisticated carpet appearance with a completely random look

AAA CAVALIER BREMWORTH UNBUILT ARCHITECTURE AWARDS

Celebrating 21 years as a sponsor, Cavalier Bremworth continues its support this year for the AAA Unbuilt Architecture Awards

"MEET THE EXPERTS" IN-STORE POINT-OF-SALE CAMPAIGN LAUNCHED

To support its TV commercial at store level, Cavalier Bremworth enlisted seven Romney sheep to explain the many unique benefits that only its pure wool carpet can offer

MANAGING DIRECTOR'S REVIEW

Year Ended 30 June 2012

We embarked upon a major programme of restructuring in order to realign production capacity with sales demand while continuing to exercise the same restraint on costs.

C.A.McKenzie

DEAR SHAREHOLDERS

The Directors of Cavalier Corporation report an audited tax paid loss for the year to 30 June 2012 of $1.6 million, compared with $18.2 million profit the previous year.

Excluding the impact of the $8.2 million pre-tax ($5.9 million after tax) costs relating to the business restructuring that had to be taken during the year in response to deteriorating trading conditions, operating profit after tax (normalised) for the year was $4.3 million, a decrease of 75% on the $17.3 million (normalised) the previous year.

The Directors advised in April 2012 that they were expecting normalised earnings for the year ended 30 June 2012 to be in the range of $3 to $5 million after tax, with restructuring costs having the effect of reducing these normalised earnings to a loss of $1 to $3 million after tax.

The final results as announced are therefore within the earnings guidance ranges previously provided.

Group revenue for the year was $217 million, a decrease of 5% on the previous year, with 54% of revenue coming from our Australian operations.

The 75% decrease in normalised earnings was the result of very soft market conditions for our carpet business on both sides of the Tasman, with both volumes and margins under pressure.

FINANCIAL POSITION

Total assets of the Group as at 30 June 2012 were $201.4 million, a decrease of $14.3 million on the previous year. $10.3 million or 72% of this decrease relates to the reduction in the level of inventory held at balance date as a consequence of the stock reduction programme that was implemented in response to the lower levels of activity. This had a positive impact on cash flow from operating activities for the year of $8.1 million.

Shareholders' equity as at 30 June 2012 was $90.9 million - down $8.4 million on the previous year.

Net interest-bearing debt of $66.6 million, while virtually unchanged on the $66.3 million the previous year, was down $11.5 million on the $78.1 million at 31 December 2011.

FINANCIAL PERFORMANCE

Year ended 30 June 2012 Audited	2012 $000s	2011 $000s	Change
Revenue	**$217,198**	$229,373	(5%)
Earnings before interest and tax (Normalised)[1]	**5,540**	25,601	(78%)
Interest	**(4,049)**	(3,545)	14%
Share of profit of equity-accounted investee (tax-paid)[2]	**3,302**	2,039	62%
Profit before tax	**4,793**	24,095	(80%)
Income tax[2]	**(510)**	(6,829)	(93%)
Profit after tax (Normalised)	**4,283**	17,266	(75%)
Restructuring costs (net of tax)	**(5,916)**	–	
Deferred tax adjustments following non-deductibility of depreceation on buildings on Group's earnings and on Group's share of equity-accounted investee's earnings	–	914	
Profit/(Loss) after tax (Reported)	**$(1,633)**	$18,180	(109%)
Earnings per share (cents) (Normalised)	**6.3**	25.4	(75%)

[1] 2012 excluding restructuring costs of $8.2 million

[2] 2011 before the restatement of deferred tax following the changes to tax law on depreciation of buildings as announced by the Government in its 2010 budget

Gearing ratio (expressed as debt over equity) was 73% as at 30 June 2012, compared with 67% the previous year, as a consequence of the reduction in shareholders' equity during the year.

SEGMENT REVIEWS

CARPET BUSINESS

Our carpet business comprises broadloom carpets and carpet tiles, with New Zealand and Australia as its main markets.

Revenue for the year was $179 million, down 12% on the previous year.

Segment results before restructuring costs for carpets were $6.2 million, down 76% on the previous year.

As a result, segment earnings as a percentage of revenue deteriorated to 3.5%, down from 12.8% the previous year. Lower volumes brought about by the very competitive operating environment and the increased costs which we were not able to fully recover impacted adversely on the results.

Business improvement plan

In April 2012, we signalled that our earnings would be affected by substantial restructuring costs as we repositioned the broadloom carpet business to cope with the difficult operating environment. We also indicated at the time that the impact of the restructuring would be difficult to project because of uncertainties as to timing.

We did, in the event, implement two significant initiatives before balance date, the first relating to the closure of one of our three spinning mills that was announced on 27 June and the second relating to the consolidation of our two New Zealand based warehousing and distribution operations. These were on top of others taken earlier in the 2011-12 year to realign production capacity with reduced sales demand.

It is these initiatives that have given rise to the $5.9 million tax paid restructuring costs that have impacted on the 2011-12 results. However, they will result in a significant reduction in operating costs for the broadloom carpet business and are an integral part of the comprehensive business improvement plan aimed at turning around the decline in earnings of the last 12 months.

New Zealand market

Market conditions in New Zealand for both residential and commercial carpets were extremely soft throughout the year. We were expecting market conditions to improve in the second half, but if anything they deteriorated further. We are now not expecting to see any real improvement in operating conditions until the second half of the 2012 -13 year.

Australian market

The nervousness emanating from the European sovereign debt crisis, coupled with the slowdown in China and general low consumer confidence meant that we fared no better in the Australian market.

However, we view the situation in the Australian market as short term, and we are forecasting market conditions to gradually improve throughout 2012 -13.

Wool prices

The 80% increase in wool prices during the 2010 -11 season, which we were not able to fully recover through pricing as a result of the depressed market conditions on both sides of the Tasman, meant that margins of our woollen broadloom carpet business were under severe pressure.

While wool prices have declined significantly since the peak reached in December 2011 and are now back at those levels prevailing before the 2010 -11 season, it will take at least another four months before we would start to experience the benefits of lower wool prices in the cost of goods sold.

WOOL BUSINESS

Our wool business comprises the Elco Direct wool acquisition operation and our 50% interest in commission woolscourer, Cavalier Wool Holdings (CWH).

Wool acquisition

As a result of the difficult trading environment, our wool acquisition operation had a challenging year as well, with segment earnings of $0.6 million, down 65% on the previous year.

Revenue for the year of $40.8 million was up very slightly on the $40.4 million the previous year, but this was more a function of the higher wool prices prevailing during the year. The volume of wool bought and sold was actually slightly down on the previous year in sympathy with the difficult conditions encountered.

Wool scouring

Cavalier's share of the tax-paid earnings of CWH for the year ended 30 June 2012 is $3.3 million, a 50% increase on the $2.2 million the previous year.

CWH performed extremely well under trying conditions to finish the year with earnings well up on the previous year.

YARN BUSINESS

With approximately half of Radford Yarn's (RYT) production consumed by the Cavalier Bremworth broadloom carpet business, its success is very much linked to the success of Cavalier Bremworth.

Yarns from RYT are destined for the luxury end of the carpet market in Australasia, North America, North Asia and Western Europe. The conditions in these markets have not helped its performance in the past year.

However, it is well positioned to capitalise on the initiatives that have been put in place when market conditions improve.

OUTLOOK

Operating conditions for 2011-12 were certainly the worst the Group has ever experienced. Virtually every variable within our businesses worked against us, with many of these totally outside our control. There included:

- the GFC and European sovereign debt crisis and the flow on of these into our markets overseas and here in New Zealand;
- the 80% spike in wool prices in the preceding 2010 -11 season;
- the depressed residential and contract building activity on both sides of the Tasman;
- the strong NZD and AUD exchange rates favouring imports into New Zealand and Australia while penalising our exports into some of our long-standing markets in North America, Europe and Asia; and
- the disruptions to business in Christchurch followed by the delays to its rebuilding programme.

As a result, we embarked upon a major programme of restructuring in order to realign production capacity with sales demand while continuing to exercise the same restraint on costs. At the same time, we also initiated a stock reduction programme aimed at reducing funds employed and debt.

Looking forward to the new financial year, we see the first half remaining tough in New Zealand. However, we can see some upside in the second half as demand from new home building and real-estate related refurbishment work improves.

As for Australia, we believe that the market has suffered a temporary setback, and we are predicting gradually improving conditions there. Both our residential and commercial carpet businesses are well positioned to take advantage of that market uplift.

Wool prices have retraced to pre-June 2010 levels, and supply and demand for wool should now stabilise at this new equilibrium giving wool merchants and exporters renewed confidence to trade wool in meaningful quantities. Sheep numbers and wool production should also stabilise at current levels. All these would not only provide for a more stable operating environment for the wool acquisition and wool scouring operations, but also see the Group's woollen carpet business better positioned with the lower wool price that would eventually flow through to earnings in the second half and beyond.

We have previously indicated a turnaround in earnings to $10 to $12 million profit after tax for the 2012 -13 year. This is based on the benefits generated from the implementation of our business improvement plans, gains from lower wool prices and a modest improvement in market conditions.

The Directors will provide shareholders with an update at the Annual Meeting of shareholders in November.

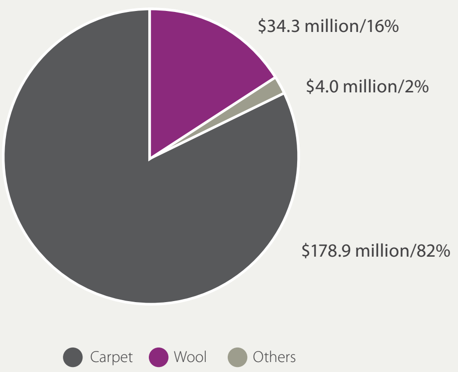
DIVIDENDS

As previously advised, the Company will not be paying a final dividend for the year ended 30 June 2012.

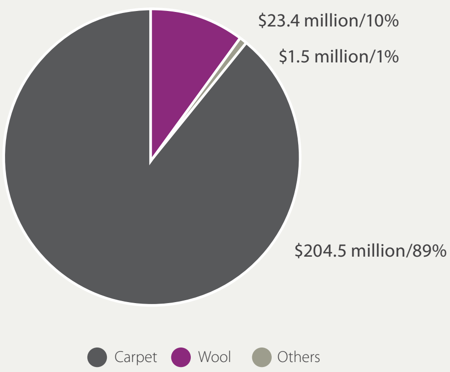
For and on behalf of the Board of Directors

Colin McKenzie
Managing Director
14 September 2012

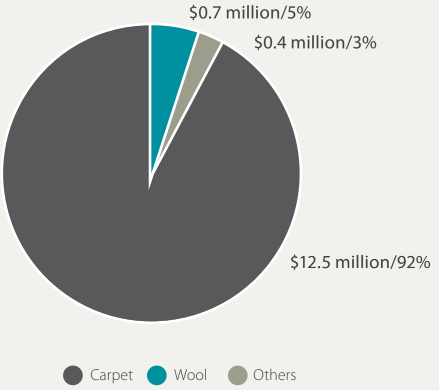
Contribution to Group operating revenue - 2011/12



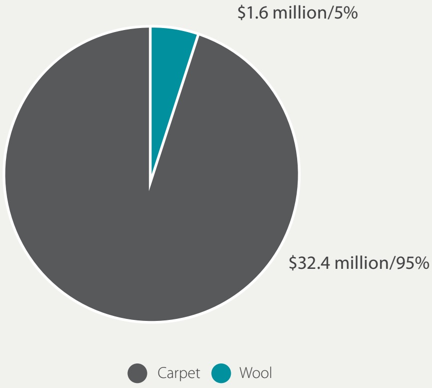
Contribution to Group operating revenue - 2010/11



Segment result before interest, tax, depreciation and restructuring costs - 2011/12



Segment result before interest, tax, depreciation and restructuring costs - 2010/11



PRODUCT

Cavalier Bremworth
Jermyn Street

Named for the home of upmarket London men's fashion, Jermyn Street gives more than a passing nod to finely tailored men's suiting. This herringbone patterned loop pile offers a very versatile option for commercial interiors, with the colour palette designed accordingly. Hard wearing, functional and a great choice for high traffic areas, Jermyn Street would also be a great option residentially for a library, den or gentlemen's study.

DIRECTORS' REPORT

Year Ended 30 June 2012

The Group developed a comprehensive business improvement plan aimed at reducing operating costs and at aligning manufacturing capacity with reduced sales demand at the Group's broadloom carpet manufacturing operations.

A.M.James

DEAR SHAREHOLDERS

On behalf of your Directors, I have pleasure in presenting our 2012 Annual Report, which incorporates the audited financial statements of the Company and its subsidiaries for the year ended 30 June 2012.

GROUP ACTIVITIES

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

The Group's two broadloom carpet operations - Cavalier Bremworth and Norman Ellison Carpets – are based in Auckland.

They also operate out of the other major cities in both New Zealand and Australia, with major warehousing and distribution facilities in Auckland, Sydney and Brisbane.

The Group's broadloom carpet brands include Bremworth, Cavalier Bremworth, Knightsbridge, Kimberley, Tramore and Norman Ellison.

Sydney-based Ontera Modular Carpets is one of Australasia's leading carpet tile manufacturers with both standard and custom designed tiles that cover the whole spectrum of commercial applications - from corporate, education and health care to retail, public spaces and hospitality.

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

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

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

BUSINESS IMPROVEMENT PLAN AND RESTRUCTURING

In response to the difficult trading conditions encountered during the year, the Group developed a comprehensive business improvement plan aimed at reducing operating costs and at aligning manufacturing capacity with reduced sales demand at the Group's broadloom carpet manufacturing operations.

Two of the more significant initiatives were implemented before balance date, the first relating to the closure of one of our three spinning mills that was announced on 27 June and the second relating to the consolidation of our two Auckland-based warehousing and distribution operations.

FINANCIAL STATEMENTS

The financial statements for the year ended 30 June 2012 have been prepared in accordance with New Zealand Generally Accepted Accounting Practice and they comply with New Zealand equivalents to International Financial Reporting Standards. The financial statements also comply with International Financial Reporting Standards.

FINANCIAL PERFORMANCE

The Group achieved a normalised profit after tax (that is, before restructuring costs) for the year of $4,283,000 – compared with the normalised profit after tax achieved in the previous year of $17,266,000.

After providing for restructuring costs of $5,916,000 after tax (or $8,218,000 before tax), the Group ended up reporting a tax-paid loss of $1,633,000.

While the Directors note that the result was ultimately due to operating conditions that were certainly the worst the Group had ever experienced, and to factors many of which were beyond the Group's control, it was still an extremely disappointing result.

	2012 $000	2011 $000
Revenue	**$217,198**	$229,373
Profit before tax from operations (normalised)	**1,491**	22,056
Share of profit of equity-accounted investee (tax-paid)	**3,302**	2,039[1]
Income tax expense	**(510)**	(6,829)[1]
Profit after tax from operations (normalised)	**4,283**	17,266
Restructuring costs (net of tax)	**(5,916)**	-
Deferred tax adjustments	-	914[2]
Profit/(Loss) after tax as reported	**$(1,633)**	$18,180

The Directors refer shareholders to the Managing Director's Review on pages 6 to 8 of the Annual Report for an in-depth analysis of the results.

Normalised return on average shareholders' equity for the year was 4.5%, compared with 18.1% the previous year, and normalised earnings per ordinary share was 6.3 cents, compared with 25.4 cents the previous year.

FINANCIAL POSITION

The equity attributable to shareholders of the Company decreased by $8,439,000 during the year to $90,855,000 as follows:

	$000
Shareholders' equity at 30 June 2011 was	99,294
to which was added:	
Changes in amounts payable to non-controlling interests	1,300
Movement in the share rights reserve	96
from which was deducted:	
Loss after tax	(1,633)
Movement in the foreign currency translation reserve	(378)
Movement in the cash flow hedging reserve	(315)
Ordinary dividends paid	(7,509)
leaving shareholders' equity at 30 June 2012 of	**$90,855**

Total assets decreased by $14.2 million during the year. Of note was the $10.3 million reduction in inventories as a consequence of the inventory reduction programme put into place in the latter part of the financial year to align inventory with sales.

Shareholders' equity accounted for 45.1% of the total assets employed at balance date, compared with 46.0% a year ago, and net interest-bearing debt : equity ratio stood at 42 : 58, compared with 40 : 60 a year ago.

DIVIDENDS

Your Directors have not authorised a final dividend for the year ended 30 June 2012.

This is consistent with the guidance previously provided to shareholders in April 2012 when the Directors advised that there will be no dividend in the current year as a consequence of the difficult operating conditions encountered, the impact of these on results and the costs relating to the business restructuring undertaken.

[1] before the adjustments to income tax expense as a consequence of the Government's 2010 Budget changes to tax legislation

[2] being the restatement of deferred tax following the changes to tax legislation announced by the Government in its 2010 Budget

DIRECTORS

Re-election of Directors

Under NZSX Listing Rule 3.3.11, and in accordance with the Constitution of the Company, at least one third, or the number nearest to one third, of the total number of Directors (excluding any Director appointed by the Board in between Annual Meetings) must retire by rotation at each Annual Meeting of shareholders.

The Directors to retire are those who have been longest in office since their last election or re-election, and if they are eligible, they may offer themselves for re-election by shareholders at the Annual Meeting.

The Directors to so retire at this Annual Meeting are Mr Wayne Chung and Mr Keith Thorpe. Mr Chung was last re-elected to the Board in November 2002 and Mr Thorpe was last re-elected in November 2009.

While both Mr Chung and Mr Thorpe are eligible for re-election to the Board, only Mr Thorpe is offering himself for re-election at the Annual Meeting.

Election of Directors

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

The Directors to so retire at this Annual Meeting are Mr Colin McKenzie and Mrs Sarah Haydon.

Both Mr McKenzie and Mrs Haydon, being eligible for election, are offering themselves for election at the Annual Meeting.

Other Nominations

The Directors note that there have been no responses to the Company's invitation for nominations to the Board as required by NZSX Listing Rule 3.3.5.

RETIREMENT OF DIRECTOR

The decision by Mr Chung not to offer himself for re-election at the Annual Meeting will bring an end to his long-standing position as a Director of the Company.

Mr Chung has been a Director of the Company since it was formed in July 1984. During this time, Mr Chung was Finance Director from July 1984 to April 2004 before assuming the role of Managing Director from April 2004 until his retirement from his executive responsibilities in March 2012.

While the Board regrets that Mr Chung is unable to continue as a non-executive Director, it is pleased that he will continue to be available to the Company and the Group as a consultant, thereby enabling the Company and the Group to continue to benefit from the considerable experience and knowledge he has amassed during his almost 40 years in the carpet industry.

The Directors take this opportunity to thank, on behalf of shareholders, management and staff, Mr Chung for his contribution over many years and to wish him all the best for the future.

AUDITORS

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

NON-AUDIT SERVICES AND AUDITOR INDEPENDENCE

Your Directors confirm that KPMG also provided the Group with taxation compliance services during the year. The fees charged for these services were $19,000.

Your Directors note that the provision of taxation compliance services by the external auditors are permitted by the International Federation of Accountants guidelines and are satisfied that the independence of the external auditors has not been compromised.

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

DIRECTORS' DISCLOSURES

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

OTHER STATUTORY DISCLOSURES

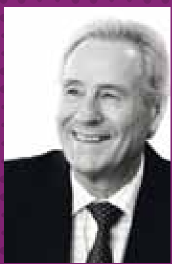
The other statutory disclosures required of the Company under the Act are set out on pages 98 and 99 of the Annual Report.

MANAGEMENT AND STAFF

On behalf of your Directors, I take this opportunity to publicly acknowledge the contributions of Messrs Chung and McKenzie, the rest of the management team and all our staff over the past year and to thank them for their efforts.

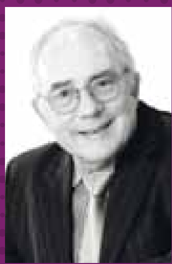
Alan James
Chairman
14 September 2012

BOARD OF DIRECTORS


Alan James


Grant Biel


Wayne Chung


Graeme Hawkins


Colin McKenzie


Keith Thorpe


Sarah Haydon

A M (Alan) James B.Tech. (Hons), Dip.Bus.Admin.

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

G C W (Grant) Biel B.E. (Mech.)

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

W K (Wayne) Chung B.Com.

Non-independent Director
Non-executive Director since May 2012
Member of the Board's Audit Committee and Remuneration Committee
Managing Director from April 2004 to March 2012
Finance Director from July 1984 to April 2004

G S (Graeme) Hawkins B.Sc., B.Com., ACA, FInstD

Independent Director
Non-executive Director since October 1998
Chairman of the Board's Audit Committee and member of the Board's Remuneration Committee
Other directorships include – Ports of Auckland Limited, Southern Cross Health Trust and Southern Cross Medical Care Society

C A (Colin) McKenzie Dip.Wool&WoolTech.

Managing Director since March 2012

K L (Keith) Thorpe M.A.

Independent Director
Non-executive Director since February 2004
Member of the Board's Audit Committee and Remuneration Committee

DIRECTOR APPOINTED AFTER BALANCE DATE

S E F (Sarah) Haydon B.Sc., ACA

Independent Director
Non-executive Director since August 2012
Member of the Board's Audit Committee and Remuneration Committee
Other directorships include – AsureQuality Limited and New Zealand Riding for the Disabled

CORPORATE GOVERNANCE STATEMENT

Year Ended 30 June 2012

ROLE OF THE BOARD

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

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

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

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

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

COMPOSITION OF THE BOARD

As at 30 June 2012, the Board comprises five non-executive Directors (including the Chairman and the Deputy Chairman) and one executive Director (the Managing Director).

Pursuant to NZSX Listing Rule 3.3.1, at least one third, or the number nearest to one third, of the total number of Directors (two in the case of the Company) shall be independent Directors. The Board has determined, pursuant to NZSX Listing Rule 3.3.3, that Mr G S Hawkins, Mr A M James and Mr K L Thorpe are independent Directors of the Company.

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

The profile of the Directors can be found on page 14.

Pursuant to NZSX Listing Rule 3.3.11, at least one third, or the number nearest to one third, of the total number of Directors (excluding any Director appointed by the Board in between Annual Meetings) retire by rotation at each Annual Meeting. The Directors to retire are those who have been longest in office since their last election or re-election. Directors retiring by rotation are eligible for re-election at that meeting. A Director appointed by the Board in between Annual Meetings holds office only until the next meeting, but is eligible for election at that meeting.

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

BOARD MEETINGS

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

Details of attendances at the nine Board meetings held during the year ended 30 June 2012 were:

G C W Biel	9/9
W K Chung	9/9
G S Hawkins	9/9
A M James	9/9
C A McKenzie (appointed 15 March 2012)	3/3
K L Thorpe	9/9
D W Huse (resigned 27 April 2012)	7/7
V T S Tan (resigned 15 March 2012)	6/6

REMUNERATION OF DIRECTORS

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

Shareholders have previously resolved that the total remuneration to be paid to the non-executive Directors be fixed at a sum not exceeding $350,000 per annum, such sum to be divided amongst them in such proportions and in such manner as they may determine. The Directors advise that the total remuneration paid to the non-executive Directors for the year ended 30 June 2012 was $293,000.

The remuneration packages of the executive Directors, who are not entitled to any remuneration in their capacity as Directors, are fixed by the Board's Remuneration Committee, which is composed entirely of the non-executive Directors. The executive Directors do not participate in decisions affecting their own remuneration packages.

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

COMMITTEES OF THE BOARD

The Board has two standing committees – one for audit and the other for executive remuneration.

Audit Committee

The Board's Audit Committee is charged with, amongst other things, the responsibility of reviewing the financial statements to ensure that these comply with the appropriate laws and regulations. It is also responsible for ensuring that adequate internal control systems are in place to provide the Board with reasonable assurance that the Company's assets are safeguarded, transactions are recorded and reported appropriately and policies are followed.

This Committee meets as and when required, but at least twice a year, with management, the independent auditors, and other internal auditors appointed from time to time. These meetings are to enable the Committee to review the work of each of these groups and to satisfy itself that they are discharging their respective responsibilities adequately. The Committee is also required to review the nature and extent of the other services provided by the independent auditors and to confirm that the auditors' independence has not been impaired. It is a policy of the Board that the independent auditors have unrestricted access to the Audit Committee, and it is standard practice for the Committee to meet twice a year with the independent auditors in the absence of executives.

The members of the Audit Committee as at 30 June 2012 were Messrs G S Hawkins (Chairman), G C W Biel, W K Chung, A M James and K L Thorpe. Mr G S Hawkins has a background in accounting and is a member of the New Zealand Institute of Chartered Accountants. M W K Chung also has a background in accounting having previously held the position of Finance Director from July 1984 to April 2004 and been a member of the New Zealand Institute of Chartered Accountants.

Details of attendances at the two Audit Committee meetings held during the year ended 30 June 2012 were:

G C W Biel (non-independent Director)	2/2
W K Chung (non-independent Director)[1]	0/0
G S Hawkins (independent Director)	2/2
A M James (independent Director)	2/2
K L Thorpe (independent Director)	2/2
D W Huse (independent Director) [2]	2/2

[1] Appointed 1 May 2012. No Audit Committee meetings between 1 May 2012 and 30 June 2012.

[2] Resigned 27 April 2012.

PRODUCT

Ontera Modular Carpets Loop pile (Custom design)

NATIONAL RUGBY LEAGUE HEADQUARTERS

LOCATION: Sydney

END USE: Corporate office

PROJECT OVERVIEW: Modular carpet for multiple rooms across the 3,600 square metre multi-storey headquarters

Executive Directors are not members of the Audit Committee, and their attendances at Audit Committee meetings are by invitation and then only in their capacity as executives.

Remuneration Committee

The Remuneration Committee meets as and when required, but at least once a year, to consider and recommend to the Board the remuneration packages of the executive Directors and to approve those of other senior executives of the Company. In considering or approving the remuneration packages of the executive Directors and other senior executives, the Committee relies on advice from appropriately qualified professionals where required and has regard to best practice in the area of senior executive remuneration. In these ways, the Company is not only able to attract or retain suitably qualified executives, but also to align their interests with those of shareholders in a way that enables the attainment of shorter-term goals without compromising longer-term objectives.

The members of the Remuneration Committee as at 30 June 2012 were Messrs A M James (Chairman), G C W Biel, W K Chung, G S Hawkins and K L Thorpe.

All the members of the Remuneration Committee, except for W K Chung who had only just been appointed to the Remuneration Committee, were present at the one Remuneration Committee meeting held during the year ended 30 June 2012.

Executive Directors are not members of the Remuneration Committee, and their attendances at the Remuneration Committee meetings are by invitation and then only in their capacity as executives.

Nominations Committee

The Board does not have a standing committee for nominations because vacancies on the Board arise infrequently.

However, it has been the past practice of the Board to charge the non-executive Directors with the responsibility of director appointments and of ensuring that the Board continues to comprise Directors with the appropriate mix of experience, qualifications and skills.

Should the need to appoint a nominations committee arise in the future, the Board will adopt best practice prevailing at the time.

CORPORATE GOVERNANCE BEST PRACTICE

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

Pursuant to NZSX Listing Rule 10.5.5(i), the Company believes that its corporate governance processes do not materially differ from the principles set out in the NZSX Corporate Governance Best Practice Code.

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

SHAREHOLDER INFORMATION

ANNUAL MEETING

Time and date	10 a.m., Friday, 16 November 2012
Venue	Ellerslie Event Centre, 80 – 100 Ascot Avenue, Greenlane, Auckland

CORPORATE CALENDAR

16 November 2012	2012 Annual Meeting
31 December 2012	End of 2013 half year
Mid-February 2013	Announcement of 2013 half year result
Mid-March 2013	Release of 2013 half year report
30 June 2013	End of 2013 financial year
Late August 2013	Announcement of 2013 annual result
September 2013[1]	Period for nomination of directors to the Board
End of September 2013	Release of 2013 Annual Report

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

SHAREHOLDER ENQUIRIES

All shareholder enquiries should, in the first instance, be directed to the Company's share registrar, Computershare Investor Services Limited, details of which can be found in the Corporate Directory (refer to pages 103 and 104 of the Annual Report).

Shareholders can also now view the details relating to their holdings, including transactions and payments history, change their addresses and update their payment instructions online by visiting www.computershare.co.nz/investorcentre. To do this, shareholders will need their shareholder number and FIN (FASTER Identification Number).

FINANCIAL STATEMENTS

Year Ended
30 June 2012

Notes to the Financial Statements

CAVALIER
CORPORATION

DIRECTORS' RESPONSIBILITIES

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

ACCOUNTING POLICIES

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

ACCOUNTING RECORDS

The Directors believe that proper accounting records, which enable, with reasonable accuracy, the determination of the financial position of the Company and Group and facilitate the compliance of the financial statements with the Financial Reporting Act 1993, have been kept.

SAFEGUARDING OF ASSETS AND INTERNAL CONTROLS

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

FINANCIAL STATEMENTS

The Directors are pleased to present, on pages 22 to 89, the financial statements of the Company and Group for the year ended 30 June 2012.

These financial statements were authorised for issue by the Directors on 17 August 2012 and, as required by section 211(1)(b) of the Companies Act 1993 and sections 10 and 13 of the Financial Reporting Act 1993, are signed and dated as at that date.

For and on behalf of the Directors:

A M James
Chairman

C A McKenzie
Managing Director and Chief Executive Officer

KPMG

TO THE SHAREHOLDERS OF CAVALIER CORPORATION LIMITED

REPORT ON THE COMPANY AND GROUP FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Cavalier Corporation Limited (''the Company") and the Group, comprising the Company and its subsidiaries, on pages 22 to 89. The financial statements comprise the statements of financial position as at 30 June 2012, the income statements and statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, for both the Company and the Group.

DIRECTORS' RESPONSIBILITY FOR THE COMPANY AND GROUP FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the financial statements on pages 22 to 89:

- comply with Generally Accepted Accounting Practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the Company and the Group as at 30 June 2012 and of the financial performance and cash flows of the Company and the Group for the year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

KPMG

17 August 2012
Auckland

INCOME STATEMENT

For the year ended 30 June 2012

	Note	GROUP		COMPANY	
		2012 $000	2011 $000	**2012 $000**	2011 $000
Revenue	4	**217,198**	229,373	**4,500**	5,000
Cost of sales		**(160,995)**	(150,933)	**–**	–
Gross profit		**56,203**	78,440	**4,500**	5,000
Other income and gains/(losses)	5	**45**	(9)	**7,689**	12,113
Distribution expenses		**(36,669)**	(38,692)	**–**	–
Administration expenses	6	**(14,039)**	(13,986)	**(4,175)**	(4,631)
Restructuring costs	28	**(8,218)**	–	**–**	–
Impairment of trademarks	11	–	(152)	**–**	–
Results from operating activities		**(2,678)**	25,601	**8,014**	12,482
Finance income	8	**–**	–	**–**	–
Finance expenses	8	**(4,049)**	(3,545)	**–**	–
Net finance costs		**(4,049)**	(3,545)	**–**	–
Share of profit of equity-accounted investee (net of income tax)	12	**3,302**	2,196	**–**	–
Profit/(Loss) before income tax		**(3,425)**	24,252	**8,014**	12,482
Income tax (expense)/benefit	9	**1,792**	(6,072)	**(118)**	(157)
Profit/(Loss) after tax for the period		**$(1,633)**	$18,180	**$7,896**	$12,325
Profit/(Loss) after tax attributable to:					
Shareholders of Cavalier Corporation Limited		**(1,633)**	18,180		
Non-controlling interests		**–**	–		
Profit/(Loss) after tax for the period		**$(1,633)**	$18,180		
Basic and diluted earnings per share (cents)	17	**(2.4)**	26.7		

This statement is to be read in conjunction with the notes on pages 29 to 89.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2012

	Note	GROUP 2012 $000	GROUP 2011 $000	COMPANY 2012 $000	COMPANY 2011 $000
Profit/(Loss) after tax for the period		**(1,633)**	18,180	**7,896**	12,325
Other comprehensive income					
Effective portion of changes in fair value of cash flow hedges		**(139)**	(69)	**–**	–
Net change in fair value of cash flow hedges transferred to profit or loss		**(292)**	(628)	–	–
Foreign currency translation differences for foreign operations		**(378)**	1,508	**–**	–
Changes in amounts payable to non-controlling interests	20	**1,300**	(584)	**–**	–
Income tax on other comprehensive income	9, 13	**116**	205	**–**	–
Other comprehensive income for the period, net of income tax		**607**	432	**–**	–
Total comprehensive income for the period		**$(1,026)**	$18,612	**$7,896**	$12,325
Total comprehensive income attributable to:					
Shareholders of Cavalier Corporation Limited		**(1,026)**	18,612	**7,896**	12,325
Non-controlling interests		**–**	–	**–**	–
Total comprehensive income for the period		**$(1,026)**	$18,612	**$7,896**	$12,325

This statement is to be read in conjunction with the notes on pages 29 to 89.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2012

	Note	GROUP					
		Share Capital $000	Cash Flow Hedging Reserve $000	Foreign Currency Translation Reserve $000	Share Rights Reserve $000	Retained Earnings $000	Total Equity $000
Total equity at 1 July 2011		**$21,157**	**$(370)**	**$2,732**	**$1,333**	**$74,442**	**$99,294**
Total comprehensive income for the period							
Profit/(Loss) after tax for the period		**–**	**–**	**–**	**–**	**(1,633)**	**(1,633)**
Other comprehensive income for the period							
Changes in fair value of cash flow hedges (net of tax)		**–**	**(315)**	**–**	**–**	**–**	**(315)**
Foreign currency translation differences for foreign operations		**–**	**–**	**(378)**	**–**	**–**	**(378)**
Changes in amounts payable to non-controlling interests	20	**–**	**–**	**–**	**–**	**1,300**	**1,300**
Total other comprehensive income		**–**	**(315)**	**(378)**	**–**	**1,300**	**607**
Total comprehensive income for the period		**–**	**(315)**	**(378)**	**–**	**(333)**	**(1,026)**
Transactions with owners, recorded directly in equity							
Dividends paid to equity holders of the Company	18	**–**	**–**	**–**	**–**	**(7,509)**	**(7,509)**
Equity-settled share-based payments	19, 32	**–**	**–**	**–**	**96**	**–**	**96**
Total equity at 30 June 2012		**$21,157**	**$(685)**	**$2,354**	**$1,429**	**$66,600**	**$90,855**

This statement is to be read in conjunction with the notes on pages 29 to 89.

STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 30 June 2011

	Note	GROUP					
		Share Capital $000	Cash Flow Hedging Reserve $000	Foreign Currency Translation Reserve $000	Share Rights Reserve $000	Retained Earnings $000	Total Equity $000
Total equity at 1 July 2010		$19,854	$122	$1,224	$1,172	$69,079	$91,451
Total comprehensive income for the period							
Profit/(Loss) after tax for the period		–	–	–	–	18,180	18,180
Other comprehensive income for the period							
Changes in fair value of cash flow hedges (net of tax)		–	(492)	–	–	–	(492)
Foreign currency translation differences for foreign operations		–	–	1,508	–	–	1,508
Changes in amounts payable to non-controlling interests	20	–	–	–	–	(584)	(584)
Total other comprehensive income		–	(492)	1,508	–	(584)	432
Total comprehensive income for the period		–	(492)	1,508	–	17,596	18,612
Transactions with owners, recorded directly in equity							
Dividends paid to equity holders of the Company	18	–	–	–	–	(12,233)	(12,233)
Issue of ordinary shares		1,303	–	–	–	–	1,303
Equity-settled share-based payments	19, 32	–	–	–	161	–	161
Total equity at 30 June 2011		$21,157	$(370)	$2,732	$1,333	$74,442	$99,294

This statement is to be read in conjunction with the notes on pages 29 to 89.

STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 30 June 2012

	Note	COMPANY Share Capital $000	 Share Rights Reserve $000	 Retained Earnings $000	 Total Equity $000
Total equity at 1 July 2011		**$21,157**	**$1,333**	**$10,155**	**$32,645**
Total comprehensive income for the period					
Profit/(Loss) after tax for the period		**–**	**–**	**7,896**	**7,896**
Other comprehensive income for the period		**–**	**–**	**–**	**–**
Total comprehensive income for the period		**–**	**–**	**7,896**	**7,896**
Transactions with owners, recorded directly in equity					
Dividends paid to equity holders of the Company	18	**–**	**–**	**(7,509)**	**(7,509)**
Equity-settled share-based payments	19, 32	**–**	**96**	**–**	**96**
Total equity at 30 June 2012		**$21,157**	**$1,429**	**$10,542**	**$33,128**

For the year ended 30 June 2011

	Note	COMPANY Share Capital $000	 Share Rights Reserve $000	 Retained Earnings $000	 Total Equity $000
Total equity at 1 July 2010		$19,854	$1,172	$10,063	$31,089
Total comprehensive income for the period					
Profit/(Loss) after tax for the period		–	–	12,325	12,325
Other comprehensive income for the period		–	–	–	–
Total comprehensive income for the period		–	–	12,325	12,325
Transactions with owners, recorded directly in equity					
Dividends paid to equity holders of the Company	18	–	–	(12,233)	(12,233)
Issue of ordinary shares		1,303	–	–	1,303
Equity-settled share-based payments	19, 32	–	161	–	161
Total equity at 30 June 2011		$21,157	$1,333	$10,155	$32,645

This statement is to be read in conjunction with the notes on pages 29 to 89.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	Note	GROUP 2012 $000	GROUP 2011 $000	COMPANY 2012 $000	COMPANY 2011 $000
ASSETS					
Property, plant and equipment	10	**75,080**	80,110	**–**	–
Intangible assets	11	**7,502**	7,502	**–**	–
Investments in subsidiaries		**–**	–	**34,309**	32,790
Investment in equity-accounted investee	12	**22,593**	22,291	**–**	–
Deferred tax asset	13	**1,998**	158	**619**	754
Total non-current assets		**107,173**	110,061	**34,928**	33,544
Cash and cash equivalents	14	**2,029**	1,396	**2**	3
Advances to subsidiaries	32	**–**	–	**2,734**	2,551
Trade receivables, other receivables and prepayments	15	**29,135**	30,404	**–**	–
Inventories	16	**62,901**	73,161	**–**	–
Derivative financial instruments	26	**97**	683	**–**	–
Tax receivable		**99**	–	**55**	–
Plant and equipment held for sale		**–**	20	**–**	–
Total current assets		**94,261**	105,664	**2,791**	2,554
Total assets		**$201,434**	$215,725	**$37,719**	$36,098
EQUITY					
Share capital	18	**21,157**	21,157	**21,157**	21,157
Cash flow hedging reserve	18	**(685)**	(370)	**–**	–
Foreign currency translation reserve	18	**2,354**	2,732	**–**	–
Share rights reserve	18, 19	**1,429**	1,333	**1,429**	1,333
Retained earnings		**66,600**	74,442	**10,542**	10,155
Total equity		**90,855**	99,294	**33,128**	32,645
LIABILITIES					
Loans and borrowings	21	**68,503**	60,070	**–**	–
Employee benefits	22	**2,996**	3,475	**1,665**	1,974
Amounts payable to non-controlling interests	20	**850**	850	**–**	–
Deferred income	23	**364**	392	**–**	–
Provisions	24	**1,381**	210	**–**	–
Total non-current liabilities		**74,094**	64,997	**1,665**	1,974
Bank overdraft	14	**79**	94	**–**	–
Loans and borrowings	21, 32	**93**	7,523	**–**	–
Advances from subsidiaries	32	**–**	–	**2,305**	620
Trade creditors and accruals	25	**23,199**	29,235	**66**	67
Provisions	24	**5,631**	710	**–**	–
Employee entitlements		**6,159**	7,522	**555**	728
Amounts payable to non-controlling interests	20	**210**	3,263	**–**	–
Deferred income	23	**70**	70	**–**	–
Derivative financial instruments	26	**1,044**	1,064	**–**	–
Tax payable		**–**	1,953	**–**	64
Total current liabilities		**36,485**	51,434	**2,926**	1,479
Total liabilities		**110,579**	116,431	**4,591**	3,453
Total equity and liabilities		**$201,434**	$215,725	**$37,719**	$36,098

This statement is to be read in conjunction with the notes on pages 29 to 89.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2012

	Note	GROUP 2012 $000	GROUP 2011 $000	COMPANY 2012 $000	COMPANY 2011 $000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from customers		**218,221**	230,698	**–**	–
Cash paid to suppliers and employees		**(204,180)**	(215,874)	**(4,562)**	(4,542)
		14,041	14,824	**(4,562)**	(4,542)
Dividends received		**3**	3	**7,689**	12,113
Other receipts		**22**	25	**4,500**	5,000
GST refunded/(paid)		**202**	(634)	**–**	–
Interest paid		**(4,174)**	(3,611)	**–**	–
Income tax paid		**(2,001)**	(6,289)	**(102)**	(159)
Net cash flow from operating activities	27	**8,093**	4,318	**7,525**	12,412
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		**64**	80	**–**	–
Proceeds from sale of plant and equipment held for sale		**126**	–	**–**	–
Acquisition of property, plant and equipment	10	**(2,457)**	(5,391)	**–**	–
Receipt of Australian Government grants		**–**	1,427	**–**	–
Contingent purchase consideration of non-controlling interests	20, 32	**(1,753)**	(172)	**(1,519)**	–
Dividends received from equity-accounted investee	12	**3,000**	–	**–**	–
Acquisition of subsidiary, net of cash acquired	3	**–**	(5,543)	**–**	–
Acquisition of shares in subsidiary		**–**	–	**–**	(2,550)
Net cash flow from investing activities		**(1,020)**	(9,599)	**(1,519)**	(2,550)
CASH FLOWS FROM FINANCING ACTIVITIES					
Shares issued	18	**–**	1,303	**–**	1,303
Movements in other borrowings	21, 32	**(1,346)**	663	**–**	–
ANZ loans drawn down/(repaid) pre refinancing		**6,084**	14,070	**–**	–
BNZ loans drawn down at refinancing		**72,486**	–	**–**	–
ANZ loans repaid at refinancing		**(72,156)**	–	**–**	–
BNZ loans drawn down/(repaid) post refinancing		**(3,983)**	–	**–**	–
Advances from/(to) subsidiaries	32	**–**	–	**1,502**	1,068
Dividends paid to equity holders of the Company	18	**(7,509)**	(12,233)	**(7,509)**	(12,233)
Net cash flow from financing activities		**(6,424)**	3,803	**(6,007)**	(9,862)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**649**	(1,478)	**(1)**	–
Cash and cash equivalents at beginning of the period		**1,302**	2,737	**3**	3
Effect of exchange rate changes on cash		**(1)**	43	**–**	–
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	14	**$1,950**	$1,302	**$2**	$3

This statement is to be read in conjunction with the notes on pages 29 to 89.

1. GENERAL INFORMATION

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

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

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

All the subsidiaries in the Group are wholly-owned except for the following:

- Ontera Modular Carpets Proprietary Limited and Ontera Modular Carpets Limited – 96.75% owned
- Radford Yarn Technologies Limited – 75% owned

Because of the need to recognise the put options granted to the non-controlling interests in respect of their shareholdings in these subsidiaries as financial liabilities in the statement of financial position, the shareholdings of the non-controlling interests have been similarly derecognised in the financial statements and their interests accounted for as if the Group owned a 100% of these subsidiaries. See significant accounting policy 2 (w) below and note 20 for more detail.

The Group also has a 50% interest in Cavalier Wool Holdings Limited, Cavalier Woolscourers Limited and three dormant companies in the Cavalier Wool Holdings group of companies. The Cavalier Wool Holdings Limited group of companies is involved in commission wool scouring.

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

The financial statements contained in this annual report were approved for issue by the Board of Directors of the Company on 17 August 2012.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation of financial statements

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

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

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

Entities reporting

The financial statements include the financial statements of the Company, the consolidated financial statements of the Group (comprising Cavalier and its subsidiaries) and the Group's interest in equity-accounted investees as at, and for the year ended, 30 June 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Historical cost convention

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

Significant accounting estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

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

- Note 3 – business combinations
- Note 11 – measurement of the recoverable amounts of cash-generating units
- Note 11 – impairment loss in respect of indefinite life intangibles
- Note 19 – measurement of share-based payments
- Note 20 – measurement of the amounts due to non-controlling interests with put options
- Note 22 – measurement of employee benefits
- Note 24 – measurement of provisions
- Note 28 – segment reporting

(b) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain the benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Associates

Associates are entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity-accounted investees). The consolidated financial statements include the Group's share of the income and expenses of equity-accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation, or has made payments, on behalf of the investee.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of consolidation (continued)

Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(c) Business combinations

Business combinations are accounted for using the acquisition method.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. The acquisition date is the date on which control is transferred to the acquirer. Judgment is applied in determining the acquisition date and determining whether control is transferred from one party to another.

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

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

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

(d) Foreign currency

Foreign currency transactions

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

Foreign operations

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign currency (continued)

Hedge of net investment in foreign operations

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

(e) Derivative financial instruments

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

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

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

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

(f) Non-derivative financial instruments

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

Non-derivative financial instruments are recognised initially at fair value, inclusive of transaction costs, and are subsequently measured at amortised cost using the effective interest rate method less any impairment losses.

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

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

Accounting for finance income and expense is covered separately.

(g) Share capital

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Property, plant and equipment

Recognition and measurement

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

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

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

Under construction

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

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

Depreciation

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

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

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

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

(i) Goodwill

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

Subsequent acquisitions

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Goodwill (continued)

Subsequent measurement

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

(j) Trademarks

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

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

(k) Research and development

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

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

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

(l) Leased assets

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

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

(m) Inventories

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Impairment

Financial assets

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

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

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

Non-financial assets

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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

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

(o) Employee benefits

Long-term benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods adjusted for the probability of the benefits vesting, discounted at the appropriate rate to determine its present value.

Short-term benefits

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

A provision is recognised for the amount expected to be paid under profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Employee benefits (continued)

Share-based payment transactions

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

The estimated fair value of the rights issued is determined using the Binomial option pricing model.

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

(p) Provisions

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

(q) Revenue and other income

Sale of goods

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

Provision of services

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

Dividend income

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

(r) Government grants

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(t) Finance expenses

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

(u) Income tax expense

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

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

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

Deferred tax is not recognised for the following temporary differences:

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

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

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

(v) Earnings per share

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Non-controllable interests

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

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

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

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

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

(x) Segment reporting

An operating segment is a component of the Group:

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Property, plant and equipment

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

Intangible assets

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

Inventories

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

Trade and other receivables

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

Loans and borrowings

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

Trade and other payables

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

Derivatives

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

(aa) Investments in subsidiaries

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

3. BUSINESS COMBINATIONS

Acquisition of subsidiary

The Group acquired, with effect from 1 April 2011, a 75% interest in the assets and business of Radford Yarn Technologies Limited ("the Radford Yarn operation").

The Christchurch-based Radford Yarn operation was set up initially as a manufacturer of apparel and other novel and exotic yarns, but has grown to become a highly respected world-class producer of premium felted wool yarns which are sold to high-end rug and carpet makers around the world, including Cavalier's broadloom carpet operation, Cavalier Bremworth.

This acquisition was effected through a new company set up to acquire those assets and business, with Cavalier subscribing for a 75% shareholding in the company for a cash consideration of $2,550,000 and the Radford Yarn Technologies Limited management team taking up the remaining 25% for a cash consideration of $850,000.

The purchase of the Radford Yarn operation will not only allow it to continue to maximise the market potential of this unique technology within its existing and established customer base, but also enable Cavalier Bremworth to expand its iconic "Bremworth Collection" range, to underpin its product differentiation strategy into the foreseeable future and to access new market segments in Australia, North Asia and North America.

Pursuant to the shareholders' agreement that was reached with the non-controlling interests at the time of the acquisition, the Group granted, in favour of those shareholders, put options that give them the right to sell their shareholdings in the Radford Yarn operation to the Group. The Group has treated these put options as if they were exercised at acquisition date and as if the Group's eventual obligation to purchase the additional shares comprising the remaining 25% had already occurred.

The impact of this is to effectively treat this acquisition as a 100% acquisition of the Radford Yarn operation, with the $850,000 contributed by the non-controlling interests dealt with as cash acquired at acquisition date.

The treatment of non-controlling interests is covered in more detail in note 20.

As a result of this treatment, the acquisition had the following effect on the Group's assets and liabilities on acquisition date:

		GROUP		
	Note	Pre-acquisition carrying amounts $000	Fair value adjustments $000	Recognised values on acquisition $000
Property, plant and equipment	10	3,882	–	3,882
Inventories		300	–	300
Employee entitlements		(79)	–	(79)
Other payables		(72)	–	(72)
Net identifiable assets and liabilities		4,031	–	4,031
Goodwill on acquisition	11	2,362	–	2,362
Consideration paid and payable		$6,393	–	$6,393
The consideration paid and payable can be analysed thus:				
Amount payable				6,393
Less cash acquired with subsidiary				(850)
Amount paid, net of cash acquired				5,543
Amount payable to non-controlling interests	20			850
				$6,393

The net cash outflow was funded by borrowings.

3. BUSINESS COMBINATIONS (continued)

Acquisition of subsidiary (continued)

The acquisition costs relating to the purchase of the Radford Yarn operation totalled $55,000 and were expensed to the income statement as they were incurred.

Pre-acquisition carrying amounts were determined based on applicable NZ IFRS immediately before the acquisition. The values of assets and liabilities recognised on acquisition are their estimated fair values (see note 2 for methods used in determining fair values).

The goodwill recognised on the acquisition is attributable mainly to:

- the value of the intellectual property and "know-how" relating to the skills and technical talent of the management and employees who transferred to the new company;
- the value of the distribution networks and other business relationships that the Radford Yarn operation had with customers and with suppliers; and
- the value of the synergistic gains that are expected to be achieved from integrating the company into the Group.

In the three months to 30 June 2011, the Radford Yarn operation contributed operating revenue of $1,549,000 (after excluding intercompany revenue) and a tax paid loss of $88,000, mainly because of the costs incurred in relation to the acquisition.

4. REVENUE

	Note	GROUP 2012 $000	GROUP 2011 $000	COMPANY 2012 $000	COMPANY 2011 $00
Sales of goods		**217,198**	229,373	**–**	–
Provision of services	32	**–**	–	**4,500**	5,000
Total revenue		**$217,198**	$229,373	**$4,500**	$5,000

5. OTHER INCOME AND GAINS/LOSSES

	Note	GROUP 2012 $000	GROUP 2011 $000	COMPANY 2012 $000	COMPANY 2011 $00
Rentals received		**22**	25	**–**	–
Dividends received	32	**3**	3	**7,689**	12,113
Net gain/(loss) on sale of property, plant and equipment		**(86)**	(37)	**–**	–
Net gain/(loss) on sale of plant and equipment held for sale		**106**	–	**–**	–
		$45	$(9)	**$7,689**	$12,113

6. ADMINISTRATION EXPENSES

The following items of expenditure are included in administration expenses:

	Note	GROUP 2012 $000	GROUP 2011 $000	COMPANY 2012 $000	COMPANY 2011 $00
Donations		**12**	26	**–**	–
Fees paid to KPMG, the auditor, for:					
– audit of annual financial statements		**166**	204	**13**	13
– other audit-related services		**22**	38	**2**	2
– non audit-related services		**19**	29	**–**	–
Total fees paid to KPMG		**$207**	$271	**$15**	$15
Fees paid to other auditors of subsidiaries		**$44**	$21	**–**	–

Other audit-related services include the review of the interim financial statements and extended-assurance work in relation to systems and internal controls. Non audit-related services were in respect of tax compliance assignments.

7. PERSONNEL EXPENSES

	Note	GROUP 2012 $000	GROUP 2011 $000	COMPANY 2012 $000	COMPANY 2011 $00
Directors' fees		**293**	287	**293**	287
Wages, salaries, bonuses and holiday pay		**53,633**	59,080	**2,913**	3,291
Employee termination benefits		**3,740**	–	**–**	–
Employee benefits		**5,436**	5,623	**366**	297
Increase in liability for retiring allowances and long service leave		**8**	111	**81**	98
Equity-settled share-based payments	19	**96**	161	**96**	161
		$63,206	$65,262	**$3,749**	$4,134

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

8. FINANCE INCOME AND EXPENSES

	Note	GROUP 2012 $000	GROUP 2011 $000	COMPANY 2012 $000	COMPANY 2011 $00
Finance income		**–**	–	**–**	–
Finance expenses		**(4,049)**	(3,545)	**–**	–
Net finance costs		**$(4,049)**	$(3,545)	**–**	–

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

9. INCOME TAX

	Note	GROUP 2012 $000	GROUP 2011 $000	COMPANY 2012 $000	COMPANY 2011 $000
INCOME TAX EXPENSE/BENEFIT IN THE INCOME STATEMENT					
Current tax expense/(benefit)					
Current period		**(28)**	5,914	**(17)**	134
Adjustment for prior periods		**(11)**	747	**–**	–
		(39)	6,661	**(17)**	134
Deferred tax expense/(benefit)					
Origination and reversal of temporary differences		**(1,748)**	852	**135**	25
Effect of impending change in domestic income tax rate		**–**	(55)	**–**	(2)
Effect of impending change in legislation relating to tax depreciation on buildings		**–**	(702)	**–**	–
Adjustment for prior periods		**(5)**	(684)	**–**	–
	13	**(1,753)**	(589)	**135**	23
Income tax expense/(benefit)		**$(1,792)**	$6,072	**$118**	$157
RECONCILIATION OF EFFECTIVE TAX RATE					
Profit/(Loss) for the period		**(1,633)**	18,180	**7,896**	12,325
Total income tax expense/(benefit)		**(1,792)**	6,072	**118**	157
Profit/(Loss) excluding income tax		**$(3,425)**	$24,252	**$8,014**	$12,482
Income tax using the Company's domestic tax rate of 28% (2011: 30%)		**(959)**	7,276	**2,244**	3,745
Share of equity-accounted investee's tax paid (profit)/loss		**(925)**	(659)	**–**	–
Non-deductible expenses		**69**	149	**27**	48
Tax exempt income		**–**	–	**(2,153)**	(3,634)
Effect of tax rate difference in foreign jurisdiction		**39**	–	**–**	–
Effect of impending change in domestic income tax rate		**–**	(55)	**–**	(2)
Effect of impending change in legislation relating to tax depreciation on buildings		**–**	(702)	**–**	–
Under provided in prior periods		**(16)**	63	**–**	–
Income tax expense/(benefit)		**$(1,792)**	$6,072	**$118**	$157

The adjustments to the deferred tax expense for the previous 2010/11 financial year were for the further effects of the impending changes:

- in the New Zealand corporate income tax rate from 30% to 28%; and
- in legislation relating to tax depreciation on buildings as announced by the New Zealand Government in its 2010 Budget in May 2010 and subsequently amended to specially deal with commercial fit-outs following the release by the Commissioner of Inland Revenue in August 2010 of its paper "Post-budget depreciation issues".

The impact of these on the Group and the Company was a credit to profit of $757,000 and $2,000 in the previous year's income statement respectively.

While these measures did not take effect until 1 July 2011, NZIAS 12 *Income Taxes* requires restatement of the deferred tax accounts at balance date for these impending changes if they were enacted or substantially enacted by balance date.

9. INCOME TAX (continued)

	Note	GROUP 2012 $000	GROUP 2011 $000	COMPANY 2012 $000	COMPANY 2011 $000
INCOME TAX RECOGNISED DIRECTLY IN EQUITY					
Derivative financial instruments		**116**	205	**–**	–
Income tax on income and expense recognised directly in equity	13	**$116**	$205	**–**	–

	GROUP 2012 $000	GROUP 2011 $000
IMPUTATION CREDITS		
Imputation credits at 1 July	**6,498**	7,111
New Zealand tax payments, net of refunds	**740**	4,559
Imputation credits attached to dividends received	**1,286**	1
Imputation credits attached to dividends paid	**(3,262)**	(5,173)
Imputation credits at 30 June	**$5,262**	$6,498
The imputation credits are available to shareholders of the Company:		
Through the Company's consolidated tax group	**3,274**	4,572
Through subsidiaries	**1,988**	1,926
	$5,262	$6,498

10. PROPERTY, PLANT AND EQUIPMENT

	GROUP 2012 $000	GROUP 2011 $000
CARRYING AMOUNTS		
Property, plant and equipment	**78,243**	83,699
Government grants deferred	**(3,163)**	(3,589)
Net carrying amount	**$75,080**	$80,110

10. PROPERTY, PLANT AND EQUIPMENT (continued)

	Note	GROUP				
		Land and buildings $000	Plant and equipment $000	Other Assets $000	Under con-struction $000	Total $000
COST OR DEEMED COST						
Balance at 1 July 2010		31,441	81,806	19,300	1,741	134,288
Acquired through business combinations	3	–	3,882	–	–	3,882
Additions		–	104	386	4,901	5,391
Disposals		–	(319)	(345)	–	(664)
Transfers		–	5,399	71	(5,470)	–
Effect of movements in exchange rates		428	902	212	2	1,544
Balance at 30 June 2011		$31,869	$91,774	$19,624	$1,174	$144,441
Balance at 1 July 2011		**31,869**	**91,774**	**19,624**	**1,174**	**144,441**
Additions		**2**	**66**	**358**	**2,031**	**2,457**
Disposals		**–**	**(116)**	**(703)**	**–**	**(819)**
Transfers		**–**	**1,876**	**318**	**(2,194)**	**–**
Effect of movements in exchange rates		**(113)**	**(277)**	**(60)**	**(12)**	**(462)**
Balance at 30 June 2012		**$31,758**	**$93,323**	**$19,537**	**$999**	**$145,617**
DEPRECIATION AND IMPAIRMENT LOSSES						
Balance at 1 July 2010		924	40,128	13,582	–	54,634
Depreciation for the year		237	4,719	1,359	–	6,315
Disposals		–	(288)	(259)	–	(547)
Effect of movements in exchange rates		–	211	129	–	340
Balance at 30 June 2011		$1,161	$44,770	$14,811	–	$60,742
Balance at 1 July 2011		**1,161**	**44,770**	**14,811**	**–**	**60,742**
Depreciation for the year		**238**	**5,212**	**1,288**	**–**	**6,738**
Impairment losses		**–**	**618**	**76**	**–**	**694**
Disposals		**–**	**(50)**	**(619)**	**–**	**(669)**
Effect of movements in exchange rates		**–**	**(90)**	**(41)**	**–**	**(131)**
Balance at 30 June 2012		**$1,399**	**$50,460**	**$15,515**	**–**	**$67,374**
CARRYING AMOUNTS						
At 30 June 2011		$30,708	$47,004	$4,813	$1,174	$83,699
At 30 June 2012		**$30,359**	**$42,863**	**$4,022**	**$999**	**$78,243**

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

10. PROPERTY, PLANT AND EQUIPMENT (continued)

Impairment loss

Impairment losses in respect of property, plant and equipment of $694,000 were recognised during the year (2011: Nil).

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 21).

Property, plant and equipment under construction

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

Because of the short time taken to complete these projects, no interest was capitalised to any of them during the year (2011: Nil).

Change in classification

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

Government grants deferred

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

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

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

	GROUP	
	2012 $000	2011 $000
Balance at 1 July	**3,589**	3,776
Release of grants to income	**(380)**	(388)
Effect of movements in exchange rates	**(46)**	201
Balance at 30 June	**$3,163**	$3,589

11. INTANGIBLE ASSETS

		GROUP		
	Note	Goodwill $000	Trademarks $000	Total $000
COST				
Balance at 1 July 2010		3,705	2,192	5,897
Acquired through business combinations	3	2,362	–	2,362
Balance at 30 June 2011		$6,067	$2,192	$8,259
Balance at 1 July 2011		**6,067**	**2,192**	**8,259**
Acquired through business combinations		**–**	**–**	**–**
Balance at 30 June 2012		**$6,067**	**$2,192**	**$8,259**
AMORTISATION AND IMPAIRMENT LOSSES				
Balance at 1 July 2010		–	605	605
Amortisation for the year		–	–	–
Impairment loss		–	152	152
Balance at 30 June 2011		–	$757	$757
Balance at 1 July 2011		**–**	**757**	**757**
Amortisation for the year		**–**	**–**	**–**
Reversal of prior period impairment losses		**–**	**465**	**465**
Impairment loss		**–**	**(465)**	**(465)**
Balance at 30 June 2012		**–**	**$757**	**$757**
CARRYING AMOUNTS				
At 30 June 2011		$6,067	$1,435	$7,502
At 30 June 2012		**$6,067**	**$1,435**	**$7,502**

Goodwill recognised on acquisition of subsidiary

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

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

Trademarks recognised on acquisition of subsidiary

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

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

11. INTANGIBLE ASSETS (continued)

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

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

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

	GROUP		
	Goodwill $000	Trademarks $000	Total $000
CARRYING AMOUNTS			
Balance at 30 June 2011			
Norman Ellison Carpets	2,043	1,435	3,478
Ontera Modular Carpets	1,662	–	1,662
Radford Yarn Technologies	2,362	–	2,362
Balance at 30 June 2011	$6,067	$1,435	$7,502
Balance at 30 June 2012			
Norman Ellison Carpets	**2,043**	**1,435**	**3,478**
Ontera Modular Carpets	**1,662**	**–**	**1,662**
Radford Yarn Technologies	**2,362**	**–**	**2,362**
Balance at 30 June 2012	**$6,067**	**$1,435**	**$7,502**

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

Goodwill

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

- Cash flows were projected based on actual operating results for the latest financial year just finished and the budgeted operating results for the ensuing year. Cash flows for a further four year period were extrapolated based on, amongst other things, management's assessment of the relevant future operating environments, both from a competitive and a regulatory perspective.
- Capital expenditures in excess of, or below, depreciation charge, after having regard to management's assessment of the capital expenditure requirements of these units.
- A 2% growth in earnings in years six and beyond.
- The New Zealand corporate tax rate of 28% for the 2012/13 financial year and thereafter.
- Post-tax discount rate of 13%. This discount rate was estimated based on a pre-tax risk-free rate of 5.0%, a post-tax market risk premium of 7.5%, a possible range of debt leveraging of around 50% and an Alpha factor of 2%.

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

11. INTANGIBLE ASSETS (continued)

Goodwill (continued)

While the above estimates of recoverable amount are particularly sensitive to the discount rate used (for example, an increase of 1 percentage point in the discount rate used would have the effect of reducing the recoverable amount by $2.9 million in the case of Norman Ellison Carpets Limited), this is not an issue due to the significant headroom that exists between the recoverable amount and the carrying value of the cash-generating units.

Indefinite life intangibles

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

As a result of a change in the way management will be using the Norman Ellison Carpets and the Georgia Collection trademarks going forward – with a move towards giving total emphasis to the Norman Ellison Carpets brand while phasing out the use of the Georgia Collection brand – there has been a write up in the carrying value of the Norman Ellison Carpets trademark to reflect the enhanced value in use of that trademark. At the same time, there has been a write down in the carrying value of the Georgia Collection trademark by the same amount. As a consequence, the net impairment loss in respect of trademarks was nil during the year (2011: an impairment loss of $152,000).

12. EQUITY-ACCOUNTED INVESTEE

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

	GROUP	
	2012 $000	2011 $000
Balance at 1 July	**22,291**	20,095
Share of tax-paid profit	**3,302**	2,196
Dividends received	**(3,000)**	–
Balance at 30 June	**$22,593**	$22,291
Amount of goodwill in carrying value of equity-accounted investee:		
Balance at 1 July	**–**	–
Balance at 30 June	**–**	–

12. EQUITY-ACCOUNTED INVESTEE (continued)

Summary financial information for equity-accounted investee, not adjusted for the percentage ownership held by the Group, follows:

	GROUP											
	Ownership	Current assets $000	Non-current assets $000	Total assets $000	Current liabilities $000	Non-current liabilities $000	Total liabilities $000	Revenues $000	Expenses $000	Profit before tax $000	Tax $000	Profit after tax $000
2011 Cavalier Wool Holdings Limited – year ended 30 June 2011	50%	8,625	63,873	72,498	3,713	25,993	29,706	35,110	(29,028)	6,082	(1,690)	4,392
2012 Cavalier Wool Holdings Limited – year ended 30 June 2012	**50%**	**10,580**	**63,118**	**73,698**	**4,849**	**25,634**	**30,483**	**36,903**	**(27,863)**	**9,040**	**(2,436)**	**6,604**

The tax expense for Cavalier Wool Holdings Limited ("CWH") for the previous 2010/11 financial year was affected by the adjustments to its deferred tax account for the effects of the impending changes in domestic income tax rate and in legislation relating to tax depreciation on buildings as announced by the New Zealand Government in its 2010 Budget in May 2010. The effect of these adjustments was a credit to profit of $314,000. While these measures did not take effect until 1 July 2011, NZIAS 12 *Income Taxes* requires restatement of the deferred tax account at balance date for these impending changes if they were enacted or substantially enacted by balance date.

Apart from the Group's 50% ownership interests in CWH, it also provided CWH with management services during the year. A fee totalling $72,000, having regard to the nature of the services performed and the resources required, was charged during the year (2011: $72,000).

Dividends of $3,000,000 were received from CWH during the year (2011: Nil). The Group notes that the dividend policy of CWH is to maximise dividend payments and on optimal terms to the shareholders provided that such payments are consistent with good business practice, the solvency and financial position of the company, the funding requirements of the company and comply with the law generally and, in particular, the responsibilities and duties of the directors.

CWH provides the Group's broadloom carpet operations with wool scouring services, whether directly or through the wool exporters from whom the Group purchases most of its wool. The value of services contracted directly with CWH during the year was $845,000 (2011: $1,537,000). At balance date, these operations owed CWH $56,000 (inclusive of GST) in respect of invoices for services provided in June 2012, but which were not due for payment at balance date (2011: $107,000).

CWH owed the Group $115,000 being rebates in respect of scouring services and wool storage provided in June 2012 (2011: $101,000) and $50,000 in respect of expenses paid on its behalf (2011: Nil) at balance date. All these amounts were paid in full after balance date.

13. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	GROUP					
	Assets		Liabilities		Net	
	2012 $000	2011 $000	2012 $000	2011 $000	2012 $000	2011 $000
Property, plant and equipment	**1,125**	1,140	**(5,749)**	(5,776)	**(4,624)**	(4,636)
Held for sale assets	**–**	8	**–**	–	**–**	8
Derivatives	**12**	23	**–**	–	**12**	23
Inventories	**1,504**	1,453	**(22)**	–	**1,482**	1,453
Loans and borrowings	**42**	29	**–**	–	**42**	29
Employee benefits	**1,633**	1,819	**–**	–	**1,633**	1,819
Provisions	**2,705**	1,529	**–**	–	**2,705**	1,529
Tax loss carry-forwards	**983**	–	**–**	–	**983**	–
Other items	**13**	20	**(248)**	(87)	**(235)**	(67)
Net tax assets/(liabilities)	**$8,017**	$6,021	**$(6,019)**	$(5,863)	**$1,998**	$158

	COMPANY					
	Assets		Liabilities		Net	
	2012 $000	2011 $000	2012 $000	2011 $000	2012 $000	2011 $000
Employee benefits	**466**	553	**–**	–	**466**	553
Provisions	**153**	201	**–**	–	**153**	201
Net tax assets/(liabilities)	**$619**	$754	**–**	–	**$619**	$754

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

13. DEFERRED TAX ASSETS AND LIABILITIES (continued)

Movement in temporary differences during the year:

GROUP	Balance 1 July 2010 $000	Recognised in profit or loss $000	Recognised in equity $000	Effect of exchange rate change $000	Effect of changes in tax legislation $000	**Balance 30 June 2011 $000**	**Recognised in profit or loss $000**	**Recognised in equity $000**	**Effect of exchange rate change $000**	**Balance 30 June 2012 $000**
Property, plant and equipment	(4,972)	(445)	–	79	702	**(4,636)**	**30**	**–**	**(18)**	**(4,624)**
Held for sale assets	12	(4)	–	–	–	**8**	**(8)**	**–**	**–**	**–**
Derivatives	25	(214)	205	2	5	**23**	**(127)**	**116**	**–**	**12**
Inventories	1,283	129	–	10	31	**1,453**	**31**	**–**	**(2)**	**1,482**
Loans and borrowings	79	(50)	–	–	–	**29**	**13**	**–**	**–**	**42**
Employee benefits	1,265	543	–	4	7	**1,819**	**(178)**	**–**	**(8)**	**1,633**
Provisions	2,284	(819)	–	52	12	**1,529**	**1,177**	**–**	**(1)**	**2,705**
Tax loss carry-forwards	–	–	–	–	–	**–**	**983**	**–**	**–**	**983**
Other items	(702)	692	–	(57)	–	**(67)**	**(168)**	**–**	**–**	**(235)**
Total	$(726)	$(168)	$205	$90	$757	**$158**	**$1,753**	**$116**	**$(29)**	**$1,998**

COMPANY	Balance 1 July 2010 $000	Recognised in profit or loss $000	Recognised in equity $000	Effect of exchange rate change $000	Effect of changes in tax legislation $000	**Balance 30 June 2011 $000**	**Recognised in profit or loss $000**	**Recognised in equity $000**	**Effect of exchange rate change $000**	**Balance 30 June 2012 $000**
Employee benefits	586	(36)	–	–	3	**553**	**(87)**	**–**	**–**	**466**
Provisions	191	11	–	–	(1)	**201**	**(48)**	**–**	**–**	**153**
Total	$777	$(25)	–	–	$2	**$754**	**$(135)**	**–**	**–**	**$619**

14. CASH AND CASH EQUIVALENTS

	GROUP		COMPANY	
	2012 $000	2011 $000	**2012 $000**	2011 $000
Cash and cash equivalents at bank	**2,029**	1,396	**2**	3
Bank overdrafts used for cash management purposes	**(79)**	(94)	**–**	–
Cash and cash equivalents in the statement of cash flows	**$1,950**	$1,302	**$2**	$3

15. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

Trade receivables due from trade customers	**27,840**	29,449	**–**	–
Other receivables	**372**	676	**–**	–
Prepayments	**923**	279	**–**	–
	$29,135	$30,404	**–**	–

See note 26 with respect to the impairment of trade and other receivables.

16. INVENTORIES

	GROUP	
	2012 $000	2011 $000
Raw materials and consumables	**18,316**	27,974
Work in progress	**2,560**	3,282
Finished goods	**42,025**	41,905
	$62,901	$73,161
Inventories stated at net realisable value	**$2,249**	$1,918
Carrying amount of inventories subject to retention of title clauses	**$2,624**	$2,859

In 2012, the net realisable value provision in respect of inventories increased by $364,000 (2011: decreased by $206,000). The increase or decrease in this provision is included in cost of sales.

17. EARNINGS PER SHARE

Basic and diluted earnings per share

	GROUP	
	2012 Cents	2011 Cents
Basic earnings per share	**(2.4)**	26.7
Diluted earnings per share	**(2.4)**	26.7

17. EARNINGS PER SHARE (continued)

Basic earnings per share

The calculation of basic earnings per share at 30 June 2012 is based on the loss attributable to ordinary shareholders of $1,633,000 (2011: profit of $18,180,000) and a weighted average number of ordinary shares outstanding of 68,263,857 (2011: 68,090,433), calculated as follows:

Profit/(Loss) attributable to ordinary shareholders

	GROUP	
	2012 $000	2011 $000
Profit/(Loss) after tax for the year	**(1,633)**	18,180
Profit/(Loss) attributable to non-controlling interests	**–**	–
Profit/(Loss) attributable to ordinary shareholders	**$(1,633)**	$18,180

Weighted average number of ordinary shares

	COMPANY	
	2012 000	2011 000
Issued ordinary shares at 1 July	**68,263.9**	67,835.7
Effect of:		
– 278,756 shares issued on 15 October 2010	**–**	197.8
– 62,744 shares issued on 17 December 2010	**–**	33.7
– 86,696 shares issued on 25 March 2011	**–**	23.2
Weighted average number of ordinary shares at 30 June	**68,263.9**	68,090.4

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2012 is based on the loss attributable to ordinary shareholders of $1,633,000 (2011: profit of $18,180,000) and a weighted average number of ordinary shares outstanding, after adjustment for the effects of all dilutive potential ordinary shares, of 68,263,857 (2011: 68,090,433), calculated as follows:

Profit/(Loss) attributable to ordinary shareholders (diluted)

	GROUP	
	2012 $000	2011 $000
Profit/(Loss) after tax for the year	**(1,633)**	18,180
Profit/(Loss) attributable to non-controlling interests	**–**	–
Profit/(Loss) attributable to ordinary shareholders	**$(1,633)**	$18,180

17. EARNINGS PER SHARE (continued)

Weighted average number of ordinary shares (diluted)

	COMPANY	
	2012 000	2011 000
Issued ordinary shares at 1 July	**68,263.9**	67,835.7
Effect of:		
– 278,756 shares issued on 15 October 2010	**–**	197.8
– 62,744 shares issued on 17 December 2010	**–**	33.7
– 86,696 shares issued on 25 March 2011	**–**	23.2
Weighted average number of ordinary shares (diluted) at 30 June	**68,263.9**	68,090.4

On the basis of the various estimated adjusted base prices set out in the table in note 19 on the Cavalier Corporation Limited Executive Share Rights Plan, and assuming that the market price of the Company's shares at 30 June 2012 of $1.52 per share remains unchanged going forward, all the share rights will have no value to the key management personnel involved because the market price would be less than these adjusted base prices.

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

18. CAPITAL AND RESERVES

Share capital

	COMPANY	
	2012 000	2011 000
Ordinary shares		
Number on issue at 1 July	**68,263.9**	67,835.7
Shares issued pursuant to the dividend reinvestment plan:		
– 278,756 shares issued on 15 October 2010	**–**	278.8
– 62,744 shares issued on 17 December 2010	**–**	62.7
– 86,696 shares issued on 25 March 2011	**–**	86.7
Number on issue at 30 June	**68,263.9**	68,263.9

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

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

The Company has also issued share rights pursuant to the Cavalier Corporation Limited 2000 Executive Share Rights Plan ("the Plan") to the executive directors and selected key management personnel of the company. Further details on the Plan can be found in note 19.

18. CAPITAL AND RESERVES (continued)

Dividends

The Company normally pays dividends to the holders of its ordinary shares three times a year. However, because of the extremely difficult trading conditions encountered by the Group during the year, the Company only paid one dividend in the year ended 30 June 2012 as follows:

	COMPANY	
	2012 Cents per share	2011 Cents per share
Previous year's final dividend paid in October	**11.0**	11.0
Current year's first interim dividend paid in December	–	3.0
Current year's second interim dividend paid in March	–	4.0
Total paid for the year	**11.0**	18.0

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

	2012 $000	2011 $000
Previous year's final dividend paid in October	**7,509**	7,462
Current year's first interim dividend paid in December	–	2,044
Current year's second interim dividend paid in March	–	2,727
Total paid for the year	**$7,509**	$12,233

The Directors have decided that no final dividend be payable in respect of the current year ended 30 June 2012 (2011: 11 cents per share, which was dealt with as an event after balance date in the previous year's financial statements).

Cash flow hedging reserve

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

Foreign currency translation reserve

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

Share rights reserve

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

The estimated fair value of the rights issued is determined using the Binomial option pricing model.

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

19. EXECUTIVE SHARE RIGHTS PLAN

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

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

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

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

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

The following table, which is based on the tranche of 835,000 share rights that were issued on 13 October 2009, sets out the rights holders' theoretical rewards under various market price scenarios in October 2012, the earliest exercise date of these rights, and the impact on the number of shares that would have to be issued and the consequent dilutive effect of these shares:

	Scenario 1	Scenario 2	Scenario 3[1]
Market price (A) at exercise date	$2.97 or less	$3.97	$6.68
Estimated adjusted base price (B) at exercise date	$2.97	$2.97	$2.97
Rights holders' rewards (being (A-B) x 835,000 of the 13 October 2009 share rights outstanding at balance date	Nil	$835,000	$3,097,850
Number of shares to be issued (being rights holders' rewards divided by market price), subject to maximum of one share for every 1.8 rights or 463,889 shares	Nil	210,327	463,889
Dilution effect (maximum 0.68%, when market price reaches $6.68 at exercise date)	Nil	0.31%	0.68%

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

19. EXECUTIVE SHARE RIGHTS PLAN (continued)

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

	COMPANY	
	2012 000	2011 000
Share rights on issue at 1 July	**3,340**	4,550
Share rights issued during the year	**–**	–
Share rights expired during the year	**–**	(1,210)
Share rights forfeited during the year	**–**	–
Share rights exercised during the year	**–**	–
Share rights on issue at 30 June	**3,340**	3,340

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

Earliest exercise date	**Expiry date**		
November 2009	November 2012	**820**	820
October 2010	October 2013	**840**	840
November 2011	November 2014	**845**	845
October 2012	October 2015	**835**	835
		3,340	3,340

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

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

19. EXECUTIVE SHARE RIGHTS PLAN (continued)

Based on the market prices of the Company's shares at the various issue dates of the rights, an estimated tax-paid cost of equity capital for the Company of 11% and assuming annual dividend payments of 18 cents per share from 1 January 2013, the Company estimates the adjusted base price to be as follows:

	Market price at issue date[1]	Next exercisable anniversary of the original issue date	Estimated adjusted base price at next exercisable anniversary of the original issue date	Expiry date	Estimated adjusted base price at expiry date
Issue date					
17 November 2006	$3.39	November 2012	$5.04	November 2012	$5.04
16 October 2007	$3.21	October 2012	$4.45	October 2013	$4.78
28 November 2008	$2.09	November 2012	$2.52	November 2014	$2.75
13 October 2009	$2.57	October 2012	$2.97	October 2015	$3.60

On the basis of the various estimated adjusted base prices set out in the table above and assuming that the market price of the Company's shares at 30 June 2012 of $1.52 per share remains unchanged going forward, all the share rights will have no value to the key management personnel involved because the market price would be less than these adjusted base prices.

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

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

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

The estimated fair value of rights issued to senior executives under the Plan is recognised as an expense over the minimum three-year period between the issue date of the rights and the earliest exercise date of the rights. At the same time, a corresponding amount is recognised as a credit to equity in the statement of changes in equity. The amount that was recognised as an expense during the year was $96,000 (2011: $161,000).

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

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

19. EXECUTIVE SHARE RIGHTS PLAN (continued)

As at 30 June 2012, the issues of share rights where the estimated fair values at their issue dates have not been fully recognised as an expense over the minimum three-year period between the issue dates of the rights and their earliest exercise dates are summarised below together with the inputs to the BOPM:

Issue date	Market price at issue date	Tax-paid cost of equity	Expected share price volatility	Vesting period	Expected life	Expected dividends (per annum)	Risk-free interest rate	Value of rights at issue date	Value of rights expensed to 30 June 2012	Value of rights to be expensed as at 30 June 2012
13 October 2009	$2.60	11%	30.0%	Three years from issue	Three years from vesting	18.0 cents	4.56% - 4.82%	24.0 cents	21.7 cents	2.3 cents

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

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

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

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

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

20. NON-CONTROLLING INTERESTS

The Group's interests in non-wholly-owned subsidiaries at balance date are set out below:

	GROUP	
	2012 %	2011 %
Ontera Modular Carpets Pty Limited and subsidiary	**96.75**	96.75
Radford Yarn Technologies Limited	**75.00**	75.00
Norman Ellison Carpets Limited and subsidiaries	**100.00**	70.00

Pursuant to the shareholders' agreements that were reached with the non-controlling interests at the time of the relevant business combinations involving these non-wholly-owned subsidiaries, the Group granted, in favour of these non-controlling interests, put options that give them the right to sell their respective shareholdings to the Group. The prices at which these shareholdings can be sold are, generally, based on capitalising the latest earnings of the relevant subsidiary at a pre-agreed earnings multiple and then adjusting this downwards for net interest-bearing debt in the subsidiary.

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

Pursuant to NZ IAS 32 *Financial Instruments: Disclosure and Presentation*, the Group recognises the put options, which impose upon the Group the unavoidable obligations to purchase the remaining shares in these subsidiaries, as financial liabilities. As a consequence, and because these put options were granted as part of various business combinations, the Group has accounted for these put options as follows:

Ontera Modular Carpets Limited and subsidiary

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

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

Norman Ellison Carpets Limited and subsidiaries ("the Norman Ellison carpet operation")

The Group completed its purchase of the 30% of Norman Ellison Carpets Limited that it did not previously own during the year in accordance with the terms of the shareholders' agreement between the parties at the time of the purchase of the initial 70% of Norman Ellison Carpets Limited in February 2008.

Because the Group has, pursuant to NZ IAS 32 *Financial Instruments: Disclosure and Presentation*, been recognising the put options granted to the non-controlling interest of Norman Ellison Carpets Limited in respect of their 30% shareholding as financial liabilities, effectively treating these put options as if they had already been exercised and dealing with the Norman Ellison carpet operation in the consolidated financial statements as if it was 100% owned, the purchase will not affect the way the Norman Ellison carpet operation has previously been accounted for.

20. NON-CONTROLLING INTERESTS (continued)

Radford Yarn Technologies Limited ("the Radford Yarn operation")

The Group acquired, with effect from 1 April 2011, a 75% interest in the assets and business of Radford Yarn Technologies Limited.

This acquisition was effected through a new company set up to acquire those assets and business, with Cavalier subscribing for a 75% shareholding in the company and the Radford Yarn Technologies Limited management team taking up the remaining 25% for a cash consideration of $850,000.

The Group has treated these put options as if they were exercised at acquisition date and as if the Group's eventual obligation to purchase the additional shares had already occurred (in essence, an "anticipated acquisition"). As a result, no non-controlling interest has been recognised in the financial statements in respect of the non-controlling interests' 25% legal interest. Instead, the Group has recognised a financial term liability in respect of its unavoidable obligation to purchase the remaining 25% in the Radford Yarn operation.

The financial liability that was booked represents the present value of the best estimate of the amount payable to the non-controlling interests after having regard to, amongst other things, the provision within the shareholders' agreement for the calculation of the purchase price, the earnings projections of the Radford Yarn operation and the appropriate discount rate for arriving at the present value of that future obligation.

Impact of the accounting treatment

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

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

Future variability in financial liabilities created

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

Future payments of dividends to non-controlling interests

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

Presentation of financial liabilities created

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

	GROUP	
	2012 $000	2011 $000
Total amount payable to non-controlling interests at 1 July	**4,113**	2,851
Amount contributed by non-controlling interests on acquisition of subsidiary (see note 3)	**–**	850
Dividends paid to non-controlling interests	**(234)**	(172)
Amounts paid to non-controlling interests on acquisition of their shares	**(1,519)**	–
Adjustment to amount payable to non-controlling interests	**(1,300)**	584
Total amount payable to non-controlling interests at 30 June	**$1,060**	$4,113
Non-current	**850**	850
Current	**210**	3,263
Total amount payable to non-controlling interests at 30 June	**$1,060**	$4,113

21. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 26.

The Group's funding facilities, which were previously provided by ANZ National Bank Limited and Australia and New Zealand Banking Group Limited (together, "ANZ"), are now provided by Bank of New Zealand and National Australia Bank Limited (together, "the Bank") following a refinancing of ANZ's facilities on 27 June 2012.

The Group had total bank funding facilities of $84,344,000 at balance date, and the details of these facilities and their utilisation at that date (excluding overdraft facilities of $5,181,000) can be analysed as follows:

	GROUP		
	Facilities (excluding overdraft) $000	Facilities utilised at balance date $000	Facilities unutilised at balance date $000
Facilities due for review:			
after 3 years but within 4 years	20,000	12,000	8,000
after 2 years but within 3 years	59,163	56,503	2,660
Total	**$79,163**	**$68,503**	**$10,660**

	GROUP		
		Facilities due for review	
	Facilities (excluding overdraft) $000	After 2 years but within 3 years $000	After 3 years but within 4 years $000
Secured bank facilities (denominated in NZD)	71,500	51,500	20,000
Secured bank facilities (denominated in AUD)	7,663	7,663	–
Total secured bank facilities	**$79,163**	**$59,163**	**$20,000**

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

	GROUP					
	Nominal interest rate 2012 %	Face value 2012 $000	Carrying amount 2012 $000	Nominal interest rate 2011 %	Face value 2011 $000	Carrying amount 2011 $000
Secured bank loans (denominated in NZD)	**4.6**	**62,500**	**62,500**	4.3	60,070	60,070
Secured bank loans (denominated in AUD)	**6.2**	**6,003**	**6,003**	6.4	6,084	6,084
Total secured bank loans		**$68,503**	**$68,503**		$66,154	$66,154
Non-current		**68,503**	**68,503**		60,070	60,070
Current		**–**	**–**		6,084	6,084
Total secured bank loans		**$68,503**	**$68,503**		$66,154	$66,154

21. LOANS AND BORROWINGS (continued)

The Group also had unsecured borrowings, which are repayable on demand, from related parties of $93,000 at balance date (2011: $1,439,000) (see note 32) to bring the total current portion of loans and borrowings to:

	GROUP	
	2012 $000	2011 $000
Current portion of secured bank loans	**–**	6,084
Unsecured borrowings from related parties	**93**	1,439
	$93	$7,523

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.

Certain property-owning companies in the Group have also granted in favour of Bank of New Zealand, as security agent for the Bank, first-ranking mortgages in respect of land and buildings with a carrying amount of $22,800,000 securing all obligations of the Group to the Bank, including obligations for the payment and repayment of moneys due, owing or payable by the Group to the Bank (see note 10).

The Company had no loans and borrowings at 30 June 2012 (2011: Nil).

22. EMPLOYEE BENEFITS

	GROUP		COMPANY	
	2012 $000	2011 $000	**2012 $000**	2011 $000
Liability for retiring allowances	**1,557**	1,873	**1,512**	1,811
Liability for long service leave	**1,439**	1,602	**153**	163
Total employee benefits	**$2,996**	$3,475	**$1,665**	$1,974

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

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

23. DEFERRED INCOME

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

	GROUP	
	2012 $000	2011 $000
Balance as at 1 July	**462**	423
Incentives granted	**42**	109
Released to income	**(70)**	(70)
Balance as at 30 June	**$434**	$462
Non-current	**364**	392
Current	**70**	70
Balance as at 30 June	**$434**	$462

24. PROVISIONS

	GROUP			
	Insurances $000	Restructuring $000	Warranties $000	Total $000
Balance at 1 July 2010	187	–	723	910
Movements during the year	23	–	(29)	(6)
Effect of movements in exchange rates	–	–	16	16
Balance at 30 June 2011	$210	–	$710	$920
Non-current	210	–	–	210
Current	–	–	710	710
Balance at 30 June 2011	$210	–	$710	$920
Balance at 1 July 2011	**210**	**–**	**710**	**920**
Movements during the year	**–**	**5,707**	**386**	**6,093**
Effect of movements in exchange rates	**–**	**–**	**(1)**	**(1)**
Balance at 30 June 2012	**$210**	**$5,707**	**$1,095**	**$7,012**
Non-current	**210**	**1,171**	**–**	**1,381**
Current	**–**	**4,536**	**1,095**	**5,631**
Balance at 30 June 2012	**$210**	**$5,707**	**$1,095**	**$7,012**

24. PROVISIONS (continued)

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

Insurances

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

Restructuring

During the year and in response to the decrease in sales as a result of the deterioration in trading conditions, the Group committed to two business improvement restructuring plans as follows:

- the first relating to the closure of the Norman Ellison Carpets woollen yarn spinning plant and the consolidation of all woollen yarn spinning at the Group's two remaining yarn spinning plants; and
- the second relating to the consolidation of the warehousing and distribution facilities of the Cavalier Bremworth and Norman Ellison Carpets broadloom carpet businesses at the one site at Wiri in Auckland.

Following the announcement of these plans and having all the required approvals in place, the Group recognised:

- in respect of the closure of the Norman Ellison Carpets woollen yarn spinning plant and the consolidation of all woollen yarn spinning at the Group's two remaining yarn spinning plants, a provision of $3,790,000 (with $3,255,000 expected to be incurred within 12 months of balance date) for expected restructuring costs, including employee termination benefits, employee support costs and the costs to relocate plant and equipment to the two remaining yarn spinning plants; and
- in respect of the consolidation of the warehousing and distribution facilities, a provision of $1,917,000 (with $1,281,000 expected to be incurred within 12 months of balance date) for expected restructuring costs, including employee termination benefits, employee support costs, the costs to relocate plant and equipment and contract termination costs.

Warranties

The provision for warranties relates mainly to carpet sold during the years ended 30 June 2012 and 2011. The provision is based on estimates made from historical warranty data associated with similar products sold by the Group. The Group expects to incur all of the liability over the next year.

25. TRADE CREDITORS AND ACCRUALS

	GROUP		COMPANY	
	2012 $000	2011 $000	**2012 $000**	2011 $000
Trade payables due to external parties	**20,911**	26,212	**–**	–
Accrued expenses	**2,288**	3,023	**66**	67
	$23,199	$29,235	**$66**	$67

26. FINANCIAL INSTRUMENTS

Management commentary

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

The Group enters into derivative financial instruments in the ordinary course of business to manage foreign currency and interest rate risks. A financial risk management committee, composed of senior management, provides oversight for risk management and derivative activities. This committee determines the Group's financial risk policies and objectives, and provides guidelines for derivative instrument utilisation. This committee also establishes procedures for control and valuation, risk analysis, counterparty credit approval, and ongoing monitoring and reporting.

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

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

Credit risk

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

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

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

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

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

Liquidity risk

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

Foreign currency risk

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

26. FINANCIAL INSTRUMENTS (continued)

Management commentary (continued)

Foreign currency risk (continued)

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

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

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

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

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

Interest rate risk

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

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

The Group's policy allows management to hedge up to 40% of the Group's core loans and borrowings without the prior approval of the Board having first been obtained.

Quantitative disclosures

Credit risk

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

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

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

	GROUP	
	2012 $000	2011 $000
New Zealand	**10,521**	11,540
Australia	**16,635**	17,197
Other regions	**1,056**	1,388
Trade and other receivables	**$28,212**	$30,125

26. FINANCIAL INSTRUMENTS (continued)

Quantitative disclosures (continued)

Credit risk (continued)

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

	GROUP			
	Gross receivable 2012 $000	Impairment 2012 $000	Gross receivable 2011 $000	Impairment 2011 $000
Not past due	**21,572**	**–**	23,878	–
Past due 0-30 days	**6,048**	**–**	4,570	–
Past due 31-120 days	**607**	**(39)**	1,607	(125)
Past due > 120 days	**150**	**(126)**	343	(148)
Total	**$28,377**	**$(165)**	$30,398	$(273)

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

	GROUP	
	2012 $000	2011 $000
Trade and other receivables – gross	**28,377**	30,398
Individual impairment	**(165)**	(273)
Trade and other receivables – net	**$28,212**	$30,125

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

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

	GROUP	
	2012 $000	2011 $000
Balance at 1 July	**(273)**	(137)
Impaired trade receivables written off	**91**	65
Changes in impairment provision	**17**	(201)
Balance at 30 June	**$(165)**	$(273)

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

The Company had no exposure to credit risk at balance date (2011: Nil).

26. FINANCIAL INSTRUMENTS (continued)

Quantitative disclosures (continued)

Liquidity risk

The following table sets out the contractual cash flows for all material financial liabilities (including projected interest costs). The Group expects that it will be able to meet all of its contractual obligations out of the positive net cash flow from operating activities, currently unutilised bank facilities (see note 21) and cash and cash equivalents at bank.

	GROUP					
			Timing of contractual cash flows			
	Statement of financial position $000	Total contractual cash flows $000	6 months or less $000	6-12 months $000	1-2 years $000	2-5 years $000
2012						
Secured bank loans	**68,503**	**74,632**	**1,360**	**1,360**	**2,720**	**69,192**
Unsecured borrowings	**93**	**95**	**95**	**–**	**–**	**–**
Trade creditors and accruals	**23,199**	**23,199**	**23,199**	**–**	**–**	**–**
Employee entitlements	**6,159**	**6,159**	**6,159**	**–**	**–**	**–**
Other payables	**1,060**	**1,060**	**210**	**–**	**850**	**–**
Bank overdraft	**79**	**79**	**79**	**–**	**–**	**–**
Total non-derivative liabilities	**$99,093**	**$105,224**	**$31,102**	**$1,360**	**$3,570**	**$69,192**
Interest rate swaps	**–**	**$(1,107)**	**$(260)**	**$(254)**	**$(489)**	**$(104)**
Forward exchange contracts						
Inflow	**–**	**13,057**	**13,057**	**–**	**–**	**–**
Outflow	**–**	**(13,039)**	**(13,039)**	**–**	**–**	**–**
	–	**$18**	**$18**	**–**	**–**	**–**
2011						
Secured bank loans	66,154	69,878	7,284	1,053	24,363	37,178
Unsecured borrowings	1,439	1,464	1,464	–	–	–
Trade creditors and accruals	29,235	29,235	29,235	–	–	–
Employee entitlements	7,522	7,522	7,522	–	–	–
Other payables	4,113	4,113	3,263	–	–	850
Bank overdraft	94	94	94	–	–	–
Total non-derivative liabilities	$108,557	$112,306	$48,862	$1,053	$24,363	$38,028
Interest rate swaps	–	$(1,439)	$(254)	$(254)	$(479)	$(452)
Forward exchange contracts						
Inflow	–	26,190	26,190	–	–	–
Outflow	–	(25,886)	(25,886)	–	–	–
	–	$304	$304	–	–	–

26. FINANCIAL INSTRUMENTS (continued)

Quantitative disclosures (continued)

Liquidity risk (continued)

	COMPANY					
			Timing of contractual cash flows			
	Statement of financial position $000	Total contractual cash flows $000	6 months or less $000	6-12 months $000	1-2 years $000	2-5 years $000
2012						
Trade creditors and accruals	**66**	**66**	**66**	**–**	**–**	**–**
Employee entitlements	**555**	**555**	**555**	**–**	**–**	**–**
Total non-derivative liabilities	**$621**	**$621**	**$621**	**–**	**–**	**–**
2011						
Trade creditors and accruals	67	67	67	–	–	–
Employee entitlements	728	728	728	–	–	–
Total non-derivative liabilities	$795	$795	$795	–	–	–

Foreign currency risk

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

	GROUP			
NZD equivalent of these foreign currencies:	AUD $000	USD $000	EUR $000	Others $000
2012				
Trade receivables	**16,744**	**459**	**54**	**119**
Secured bank loans	**(6,003)**	**–**	**–**	**–**
Trade payables	**(4,983)**	**(4,129)**	**(124)**	**(29)**
Net statement of financial position exposure before hedging activity	**5,758**	**(3,670)**	**(70)**	**90**
Estimated forecast sales for which hedging is in place	**2,286**	**–**	**–**	**–**
Estimated forecast purchases for which hedging is in place	**–**	**(383)**	**(401)**	**(40)**
Net cash flow exposure before hedging activity	**8,044**	**(4,053)**	**(471)**	**50**
Forward exchange contracts				
Notional amounts	**(8,044)**	**4,053**	**471**	**69**
Net unhedged exposure	**–**	**–**	**–**	**$119**
2011				
Trade receivables	17,471	529	435	97
Secured bank loans	(6,084)	–	–	–
Trade payables	(5,024)	(4,887)	(126)	(69)
Net statement of financial position exposure before hedging activity	6,363	(4,358)	309	28
Estimated forecast sales for which hedging is in place	8,595	–	–	–
Estimated forecast purchases for which hedging is in place	–	(421)	(868)	–
Net cash flow exposure before hedging activity	14,958	(4,779)	(559)	28
Forward exchange contracts				
Notional amounts	(14,958)	4,779	559	144
Net unhedged exposure	–	–	–	$172

The Company had no exposure to foreign currency risk at balance date (2011: Nil).

26. FINANCIAL INSTRUMENTS (continued)

Quantitative disclosures (continued)

Interest rate risk – re-pricing analysis

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

	GROUP									
	2012					2011				
	Total $000	6 months or less $000	6-12 months $000	1-2 years $000	2-5 years $000	Total $000	6 months or less $000	6-12 months $000	1-2 years $000	2-5 years $000
Financial assets and liabilities										
Cash and cash equivalents	**2,029**	**2,029**	**–**	**–**	**–**	1,396	1,396	–	–	–
Secured bank loans	**(68,503)**	**(68,503)**	**–**	**–**	**–**	(66,154)	(66,154)	–	–	–
Unsecured borrowings	**(93)**	**(93)**	**–**	**–**	**–**	(1,439)	(1,439)	–	–	–
Bank overdrafts	**(79)**	**(79)**	**–**	**–**	**–**	(94)	(94)	–	–	–
	(66,646)	**(66,646)**	**–**	**–**	**–**	(66,291)	(66,291)	–	–	–
Related derivatives										
Effect of interest rate swaps	**–**	**25,000**	**–**	**(20,000)**	**(5,000)**	–	22,589	–	(2,589)	(20,000)
Total	**$(66,646)**	**$(41,646)**	**–**	**$(20,000)**	**$(5,000)**	$(66,291)	$(43,702)	–	$(2,589)	$(20,000)

The Company had no exposure to interest rate risk arising from either fixed rate instruments or variable rate instruments and related derivatives (2011: Nil).

26. FINANCIAL INSTRUMENTS (continued)

Capital management

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

The Group's capital management policy is aimed at maintaining a strong capital base so as to maintain investor, creditor and market confidence in the Group and to enable it to continue to fund the ongoing needs of the business, to sustain its future development and to take advantage of any other business opportunities that may arise from time to time.

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

The Group is not subject to any externally imposed capital requirements, except that it has a covenant with its bank to maintain shareholders' funds at a certain minimum level. There is a significant headroom between shareholders' funds and this required minimum.

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 segment operations and activities and the optimisation of the return achieved on the capital allocated. The process of allocating capital to specific business segment operations and activities is determined by the Managing Director in consultation with the Board of Directors and is therefore undertaken independently of those responsible for the operation.

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

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

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

The Group's gearing ratio and leverage at balance date were as follows:

	GROUP	
	2012 $000	2011 $000
Total loans and borrowings, including current portion	**68,596**	67,593
Plus bank overdraft	**79**	94
Less cash and cash equivalents	**(2,029)**	(1,396)
Net debt	**66,646**	66,291
Total equity	**90,855**	99,294
Total capital employed	**$157,501**	$165,585
Gearing ratio	**73.4%**	66.8%
Leverage	**42.3%**	40.0%

26. FINANCIAL INSTRUMENTS (continued)

Sensitivity analysis

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

At 30 June 2012, it is estimated that a general increase of one percentage point in interest rates would increase the Group's loss before income tax by approximately $432,000 (2011: decrease profit by $450,000). Interest rate swaps have been included in this calculation.

It is estimated that a general increase of one percentage point in the value of the New Zealand dollar against other foreign currencies at balance date would have an immaterial impact on the Group's profit/loss before income tax for the years ended 30 June 2012 and 2011 after taking into account the forward exchange contracts that the Group had in place at balance date.

Hedging

Interest rate hedges

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

At 30 June 2012, the Group had interest rate swaps with a notional contract amount of $27,554,000 (2011: $22,589,000). Of these, $2,554,000 will mature within six months of balance date (2011: Nil), with the balance maturing over the next four years. The Group classifies interest rate swaps as cash flow hedges. These swaps have fixed swap rates ranging from 4.65% to 7.14%.

The net fair value of swaps at 30 June 2012 was a loss of $985,000 (2011: loss of $814,000).

Forecast transactions

The Group classifies the forward exchange contracts taken out to hedge forecast transactions as cash flow hedges. These forecast transactions are expected to occur within 12 months of balance date. The net fair value of forward exchange contracts used as hedges of forecast transactions at 30 June 2012 was a gain of $32,000 (2011: gain of $292,000).

Recognised assets and liabilities

The fair value of forward exchange contracts used as economic hedges of monetary assets and liabilities in foreign currencies at 30 June 2012 was a gain of $6,000 (2011: gain of $142,000) recognised in fair value derivatives.

Hedge of net investment in foreign operation

One of the Group's Australian dollar denominated secured bank loans is designated as a hedge of the property held by a subsidiary. The carrying amount of the loan at 30 June 2012 was $3,448,000 (2011: $3,495,000). A gain of $47,000 (2011: loss of $177,000) was recognised in the foreign currency translation reserve within equity on the translation of the loan to New Zealand dollars.

26. FINANCIAL INSTRUMENTS (continued)

Classification and fair values

	GROUP									
	2012					2011				
	Trading $000	Loans and receivables $000	Other amortised cost $000	Total carrying amount $000	Fair value $000	Trading $000	Loans and receivables $000	Other amortised cost $000	Total carrying amount $000	Fair value $000
Assets										
Trade and other receivables, including derivatives	**97**	**28,212**	**–**	**28,309**	**28,309**	683	30,125	–	30,808	30,808
Cash and cash equivalents	**–**	**2,029**	**–**	**2,029**	**2,029**	–	1,396	–	1,396	1,396
Total assets	**$97**	**$30,241**	**–**	**$30,338**	**$30,338**	$683	$31,521	–	$32,204	$32,204
Liabilities										
Loans and borrowings	**–**	**–**	**68,503**	**68,503**	**68,503**	–	–	60,070	60,070	60,070
Total non-current liabilities	**–**	**–**	**68,503**	**68,503**	**68,503**	–	–	60,070	60,070	60,070
Bank overdraft	**–**	**–**	**79**	**79**	**79**	–	–	94	94	94
Loans and borrowings	**–**	**–**	**93**	**93**	**93**	–	–	7,523	7,523	7,523
Trade and other payables, including derivatives	**1,044**	**–**	**29,568**	**30,612**	**30,612**	1,064	–	40,020	41,084	41,084
Total current liabilities	**1,044**	**–**	**29,740**	**30,784**	**30,784**	1,064	–	47,637	48,701	48,701
Total liabilities	**$1,044**	**–**	**$98,243**	**$99,287**	**$99,287**	$1,064	–	$107,707	$108,771	$108,771

Estimation of fair values

The methods used in determining the fair values of financial instruments are discussed in note 2. In the case of loans and borrowings which were only negotiated in the current financial year, the underlying interest rate margins approximate current margins, and fair value approximates the present value of future principal and interest cash flows.

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

	GROUP		COMPANY	
	2012 $000	2011 $000	2012 $000	2011 $000
Profit/(Loss) after tax for the period	**(1,633)**	18,180	**7,896**	12,325
Add/(Deduct) non-cash items:				
Equity-settled share-based transactions	**96**	161	**96**	161
Depreciation	**6,738**	6,315	**–**	–
Impairment of trademarks	**–**	152	**–**	–
Impairment of plant and equipment	**694**	–	**–**	–
Deferred government grants	**(380)**	(388)	**–**	–
Share of profit of equity-accounted investee	**(3,302)**	(2,196)	**–**	–
Deferred tax asset/liability	**(1,750)**	(589)	**135**	23
Employee benefits	**(475)**	(120)	**(308)**	(118)
Deferred income	**(28)**	39	**–**	–
Provisions	**6,092**	10	**–**	–
Net (gain)/loss on sale of property, plant and equipment	**86**	37	**–**	–
Net (gain)/loss on sale of plant and equipment held for sale	**(106)**	–	**–**	–
Net (gain)/loss on foreign currency balance	**(10)**	(12)	**–**	–
Changes in working capital items:				
Trade and other receivables	**1,114**	1,997	**–**	–
Inventories	**10,117**	(19,925)	**–**	–
Tax payable/receivable	**(2,036)**	360	**(119)**	(25)
Trade creditors and accruals	**(7,265)**	18	**(175)**	46
Derivative financial instruments	**141**	279	**–**	–
Net cash flow from operating activities	**$8,093**	$4,318	**$7,525**	$12,412

28. SEGMENT REPORTING

Reportable segments

The Group's reportable segments are:

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

An operating segment is a component of the Group:

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

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

In determining its reportable segments, the Group considered the criteria set out in paragraph 12 of NZ IFRS 8 and was able to aggregate the Cavalier Bremworth, Norman Ellison and Ontera Modular operating segments into a single reportable segment.

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

Nature of the products

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

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

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

Nature of the production processes

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

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

Type or class of customers for their products

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

Cavalier Bremworth's product offerings are, on the other hand, more diverse and are designed for both residential and commercial applications.

28. SEGMENT REPORTING (continued)

Reportable segments (continued)

Type or class of customers for their products (continued)

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

Norman Ellison's products are predominantly residential and, to this extent, very similar to those within the Cavalier Bremworth residential offerings.

Methods used to distribute their products

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

Similarities in economic characteristics

The Group also considered and identified similarities in economic characteristics in the Cavalier Bremworth, Norman Ellison and Ontera Modular operating segments.

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

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

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

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

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

28. SEGMENT REPORTING (continued)

Inter-segment transactions

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

Information about geographical areas

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

	GROUP	
	2012 $000	2011 $000
Revenue		
New Zealand	**94,609**	92,776
Australia	**116,838**	131,716
Rest of the world	**5,751**	4,881
	$217,198	$229,373

	GROUP	
	As at 30 June 2012 $000	As at 30 June 2011 $000
Non-current assets		
New Zealand	**82,519**	84,027
Australia	**24,654**	26,034
	$107,173	$110,061

Information about major customers

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

28. SEGMENT REPORTING (continued)

	CARPETS		WOOL ACQUISITION		OTHER		TOTAL	
	2012 $000	2011 $000	2012 $000	2011 $000	2012 $000	2011 $000	2012 $000	2011 $000
External revenue	**178,927**	204,444	**34,293**	23,380	**3,978**	1,549	**217,198**	229,373
Inter-segment revenue	**–**	–	**6,464**	17,038	**2,841**	463	**9,305**	17,501
Total revenue	**$178,927**	$204,444	**$40,757**	$40,418	**$6,819**	$2,012	**226,503**	246,874
Elimination of inter-segment revenue							**(9,305)**	(17,501)
Consolidated revenue							**$217,198**	$229,373
Segment result before depreciation and restructuring costs	**12,550**	32,386	**658**	1,663	**406**	(11)	**13,614**	34,038
Depreciation	**(6,367)**	(6,162)	**(102)**	(88)	**(269)**	(65)	**(6,738)**	(6,315)
Segment result before restructuring costs	**6,183**	26,224	**556**	1,575	**137**	(76)	**6,876**	27,723
Restructuring costs[1]	**(8,218)**	–	**–**	–	**–**	–	**(8,218)**	–
Segment result after restructuring costs	**(2,035)**	26,224	**556**	1,575	**137**	(76)	**(1,342)**	27,723
Elimination of inter-segment profits							**450**	(162)
Unallocated corporate costs							**(1,786)**	(1,960)
Results from operating activities							**(2,678)**	25,601
Net finance costs							**(4,049)**	(3,545)
Share of profit of equity-accounted investee (net of income tax)							**3,302**	2,196
Profit/(Loss) before income tax							**(3,425)**	24,252
Income tax (expense)/benefit							**1,792**	(6,072)
Profit/(Loss) after tax for the period							**$(1,633)**	$18,180
Reportable segment assets	**167,901**	180,562	**3,538**	4,746	**7,402**	8,106	**178,841**	193,414
Investment in equity-accounted investee							**22,593**	22,291
Unallocated assets							**–**	20
Total assets							**$201,434**	$215,725
Capital expenditure	**2,025**	5,259	**105**	73	**327**	59	**$2,457**	$5,391
Reportable segment liabilities	**38,947**	44,049	**1,551**	3,611	**1,485**	1,178	**41,983**	48,838
Unallocated liabilities							**68,596**	67,593
Total liabilities							**$110,579**	$116,431
Employee numbers								
Operations[2]	**722**	885	**23**	26	**26**	34	**771**	945
Unallocated							**4**	4
Total employee numbers							**775**	949

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

[2] Employee numbers expected to drop by a further 88 after balance date as a consequence of the various business improvement plans initiated and announced before balance date.

29. OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	GROUP	
	2012 $000	2011 $000
Less than one year	7,425	7,037
Between one and five years	24,481	24,981
More than five years	5,308	9,108

The Group leases a number of warehouse and factory facilities under operating leases. The lease terms vary from site to site and can run up to terms in excess of 10 years depending upon the nature of the facility and its significance to the business. The Group has, in some of the operating leases, an option or a number of options to renew these leases after their due date. These leases provide for regular reviews of lease payments to reflect market rentals. In some cases, they provide for rent reviews that are based on changes in the relevant consumer price index.

The Group has considered a number of factors (including the fact that titles in the relevant land do not pass, rentals paid are increased to market rents at regular intervals, and the Group does not participate in the residual value of the building) with its longer-term leases and is satisfied, on these factors, that substantially all the risks and rewards of the buildings are with the landlord and that they have therefore been dealt with as operating leases in the financial statements.

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

	Term from balance date	Rights of renewal
6 Hautu Drive, Auckland, New Zealand	5 years	Two rights of renewal of 6 years each
273 Neilson Street, Auckland, New Zealand	8 years	None
373 Neilson Street, Auckland, New Zealand	7 years	None
27 Connaught Drive, Christchurch, New Zealand	5 years	Two rights of renewal of 6 years each
171 Briens Road, Sydney, Australia	4 years	One right of renewal of 10 years
10 Gassman Drive, Yatala, Queensland, Australia	5 years	None

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

The Group had no leased properties that were surplus to requirements during the year.

During the year ended 30 June 2012, $7,689,000 was recognised as an expense in the income statement in respect of operating leases (2011: $7,342,000).

The Company had no lease commitments as a lessee at balance date (2011: Nil).

Leases as lessor

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

During the year ended 30 June 2012, $22,000 was recognised as rentals received in the income statement in respect of the lease of these premises (2011: $25,000).

The Company had no lease commitments as a lessor at balance date (2011: Nil).

30. CAPITAL COMMITMENTS

As at balance date, the Group had outstanding commitments for capital expenditure (being plant and equipment for its various manufacturing operations) of $50,000 (2011: $678,000). These commitments are expected to be settled in the following financial year.

The Company had no capital commitments at balance date (2011: Nil).

31. CONTINGENCIES

The Group had granted indemnities in favour of the Bank at balance date in respect of:

	GROUP	
	2012 $000	2011 $000
Bank guarantees in respect of operating leases and other commitments	**$1,497**	$1,593

The Company and some of the other companies in the Group are parties to a cross guarantee in favour of Bank of New Zealand and National Australia Bank Limited securing each other's obligations.

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

The Group's indebtedness under the cross guarantee at balance date amounted to $63,049,000 (2011: $47,690,000).

32. RELATED PARTIES

GROUP

Transactions with substantial security holders

Chippendale Holdings Limited and Rural Aviation (1963) Limited are substantial security holders in the Company. Chippendale Holdings Limited is the registered holder of 9,174,312 ordinary shares in the capital of the Company (or 13.4% of the total number of ordinary shares on issue) and Rural Aviation (1963) Limited is the registered holder of 8,467,642 ordinary shares in the capital of the Company (or 12.4% of the total number of ordinary shares on issue).

Chippendale Holdings Limited and Rural Aviation (1963) Limited are associated with Mr A C Timpson and Mr G C W Biel respectively. Mr Timpson was a non-executive director of the Company until 12 November 2009, when he retired from the Board. Mr A C Timpson is also the holder of 420,732 ordinary shares in the capital of the Company (or 0.6% of the total number of ordinary shares on issue). Mr Biel is a non-executive director of the Company.

32. RELATED PARTIES (continued)

Transactions with substantial security holders (continued)

The Group's short term loans and borrowings include amounts borrowed from Chippendale Holdings Limited and Rural Aviation (1963) Limited. These borrowings are unsecured and are repayable on demand. The amounts borrowed, and the applicable interest rate, as at balance date are as disclosed below and can be compared with a commercial interest rate of 4.67% (2011: 4.05%) for borrowings of a similar tenure from the Bank of New Zealand.

	GROUP	
	2012 $000	2011 $000
Chippendale Holdings Limited	**10**	1,350
Rural Aviation (1963) Limited	**83**	89
Total	**$93**	$1,439
Interest rate	**3.45%**	3.45%

Transactions with directors and key management personnel

Executive share rights plan

The executive directors of the Company and certain key management personnel are participants in the Cavalier Corporation Limited 2000 Executive Share Rights Plan, the details of which can be found in note 19.

Shareholdings

The Directors and a number of key management personnel are shareholders in the Company.

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

The Group notes that the Directors are precluded by the NZSX Listing Rules from voting at general meetings of shareholders on certain matters prescribed by the New Zealand Exchange. These matters include, in the case of the non-executive directors, shareholders' approval of directors' fees and, in the case of the executive directors, the approval to issue further rights under the Cavalier Corporation Limited 2000 Executive Share Rights Plan.

Loans to directors and key management personnel

There were no loans to the Directors and the key management personnel of the Company and the Group during the year ended 30 June 2012 (2011: Nil). As a result, there were no provisions for doubtful debts or write offs for bad debts during the year in respect of the Directors and key management personnel (2011: Nil).

Non-executive directors' remuneration

The fees paid to the non-executive directors for services in their capacity as non-executive directors totalled $293,467 during the year ended 30 June 2012 (2011: $286,875). No other services were provided by the non-executive directors during the year (2011: Nil).

32. RELATED PARTIES (continued)

Transactions with directors and key management personnel (continued)

Non-executive directors' remuneration (continued)

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

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

Mr Wayne Chung was appointed a non-executive director of the Company on his retirement from his role as an executive director (including Managing Director) on 30 April 2012. Mr Chung continues to serve as a director of the subsidiary companies of the Company and the Group and as a director of equity-accounted investee, Cavalier Wool Holdings Limited. In recognition of the additional responsibilities that Mr Chung has continued to assume, Mr Chung is entitled to consultancy fees of $12,000 per annum.

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

	COMPANY AND GROUP
A M James – Chairman	70,000
G C W Biel	96,000
G S Hawkins	96,000
K L Thorpe	35,000
Total	$297,000

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

Key management personnel (including the executive directors) remuneration

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

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

The executive directors and certain key management personnel of the Company are also eligible for retiring allowances, based on, amongst other things, their salary and length of service with the Company at the time of their retirement.

The executive directors of the Company and certain key management personnel are also participants in the Cavalier Corporation Limited 2000 Executive Share Rights Plan, the details of which can be found in note 19.

32. RELATED PARTIES (continued)

Transactions with directors and key management personnel (continued)

Key management personnel (including the executive directors) remuneration (continued)

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

		GROUP		COMPANY	
	Note	**2012 $000**	2011 $000	**2012 $000**	2011 $000
Wages, salaries, bonuses and holiday pay		**3,703**	4,417	**2,913**	3,291
Consultancy fees		**379**	337	**–**	–
Employee benefits		**457**	490	**366**	297
Increase in liability for retiring allowances and long service leave		**81**	98	**81**	98
Equity-settled share-based payments	19	**96**	161	**96**	161
		$4,716	$5,503	**$3,456**	$3,847

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

Other transactions with key management personnel

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

The Company and the Group do not transact with the executive directors, key management personnel and their related parties, other than in their capacity as employees or consultants, except that they may purchase goods from the Group for their own domestic use. These purchases are on the same terms and conditions as those applying to all employees of the Group and are trivial or domestic in nature.

Transactions with non-controlling interests

Options over shares in non-wholly-owned subsidiaries

Pursuant to the shareholders' agreements that were reached with the non-controlling interests at the time of the relevant business combinations involving these non-wholly-owned subsidiaries, the Group granted, in favour of these non-controlling interests, put options that give them the right to sell their respective shareholdings to the Group. In return for granting these put options, the non-controlling interests have also granted call options which give the Group the corresponding right to buy the non-controlling interests out of these subsidiaries. The prices at which these shareholdings can be sold or bought were arrived at on an arms-length basis. See note 20 for the accounting treatment of non-controlling interests and their put options.

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

Purchase of shares in non-wholly-owned subsidiaries

The Company completed its purchase of the 30% of Norman Ellison Carpets Limited that it did not previously own during the year. The purchase price of this 30% interest amounted to $1,518,877 which was calculated in accordance with the terms of the shareholders' agreement between the parties at the time of the purchase of the initial 70% of Norman Ellison Carpets Limited in February 2008.

32. RELATED PARTIES (continued)

Transactions with non-controlling interests (continued)

Purchase of shares in non-wholly-owned subsidiaries (continued)

Pursuant to NZ IAS 32 *Financial Instruments: Disclosure and Presentation*, the Group has been recognising the put options granted to the non-controlling interest of Norman Ellison Carpets Limited in respect of their 30% shareholding as financial liabilities, effectively treating these put options as if they had already been exercised and dealing with the Norman Ellison Carpets group of companies in the consolidated financial statements as if it was 100% owned.

As a consequence, the acquisition of the 30% of Norman Ellison Carpets Limited will not affect the way the Norman Ellison Carpets group of companies has previously been accounted for.

There were no purchases of shares in non-wholly owned subsidiaries in the previous financial year.

Dividends paid to non-controlling interests

Dividends totalling $234,000 were paid to the non-controlling interests in non-wholly-owned subsidiaries during the year (2011: $172,000).

COMPANY

Transactions with subsidiaries

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

	COMPANY	
	2012 $000	2011 $000
Dividends received		
From:		
Cavalier Bremworth Limited	**3,000**	3,000
Knightsbridge Carpets Limited	**3,000**	4,000
Ontera Modular Carpets Pty Limited	**1,241**	5,113
Norman Ellison Carpets Limited	**448**	–
Total	**$7,689**	$12,113
Management fees charged		
To:		
Cavalier Bremworth Limited	**3,000**	3,400
Knightsbridge Carpets Limited	**350**	350
Cavalier Bremworth (Australia) Limited	**500**	550
Cavalier Spinners Limited	**650**	700
Total	**$4,500**	$5,000
Advances to/(from) subsidiaries during the year		
Cavalier Bremworth Limited	**(1,948)**	(1,583)
Knightsbridge Carpets Limited	**127**	136
Cavalier Spinners Limited	**319**	379
Total	**$(1,502)**	$(1,068)

32. RELATED PARTIES (continued)

Transactions with subsidiaries (continued)

	COMPANY 2012 $000	COMPANY 2011 $000
Advances to/(from) subsidiaries at balance date		
Cavalier Bremworth Limited	**(1,685)**	263
Knightsbridge Carpets Limited	**650**	523
Cavalier Bremworth (Australia) Limited	**135**	135
E Lichtenstein and Company Limited	**(35)**	(35)
Cavalier Spinners Limited	**1,678**	1,359
EnCasa Carpets Limited	**(50)**	(50)
Cavalier Holdings (Australia) Pty Limited	**271**	271
Microbial Technologies Limited	**(535)**	(535)
Total	**$429**	$1,931

These advances are interest free and are repayable on demand.

33. GROUP ENTITIES

Operating subsidiaries of the Company and Group

	COUNTRY OF INCORPORATION	INTEREST % 2012	INTEREST % 2011
Cavalier Bremworth Limited	New Zealand	**100.00**	100.00
Cavalier Bremworth (Australia) Limited	New Zealand	**100.00**	100.00
Cavalier Bremworth Pty Limited	Australia	**100.00**	100.00
Cavalier Spinners Limited	New Zealand	**100.00**	100.00
Elco Direct Limited	New Zealand	**100.00**	100.00
Kimberley Carpets Pty Limited	Australia	**100.00**	100.00
Knightsbridge Carpets Limited	New Zealand	**100.00**	100.00
Norman Ellison Carpets Limited	New Zealand	**100.00**	70.00
Norman Ellison Carpets Pty Limited	Australia	**100.00**	70.00
Ontera Modular Carpets Pty Limited	Australia	**96.75**	96.75
Ontera Modular Carpets Limited	New Zealand	**96.75**	96.75
Radford Yarn Technologies Limited	New Zealand	**75.00**	75.00

Equity-accounted investee of the Group

Cavalier Wool Holdings Limited	New Zealand	**50.00**	50.00

34. EVENTS AFTER BALANCE DATE

Dividends

The Directors did not declare a final dividend in respect of the year ended 30 June 2012 (2011: 11 cents per share fully imputed on 68,263,857 shares giving a total of $7,509,024).

35. AMENDMENTS TO STANDARDS

The following are standards, amendments and interpretations to existing standards which are applicable to the Group, but are not yet effective and have not been early adopted by the Group:

Presentation of Items of Other Comprehensive Income (Amendments to NZ IAS 1 *Presentation of Financial Statements*) (effective 1 July 2012)

The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the statement of financial position or the profit or loss in the current period.

The Group will adopt the new standard from 1 July 2012.

NZ IFRS 10 *Consolidated Financial Statements* (effective 1 January 2013)

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

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

There is also new guidance on participating and protective rights and on agent/principal relationships.

The Group has yet to assess the impact of the new standard on its composition.

NZ IFRS 12 *Disclosure of Interests in Other Entities* (effective 1 January 2013)

NZ IFRS 12 is a new standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

The Group does not expect any material impact from the application of this standard.

NZ IFRS 13 *Fair Value Measurement* (effective 1 January 2013)

NZ IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures.

The Group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance.

It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements.

The Group will adopt the new standard from 1 July 2013.

35. AMENDMENTS TO STANDARDS (continued)

Revised NZ IAS 27 *Separate Financial Statements* (effective 1 January 2013)

NZ IAS 27 is renamed Separate Financial Statements and is a standard that will deal solely with separate financial statements.

Application of this standard by the Group and the Company will not affect any of the amounts recognised in the financial statements, but may impact the type of information disclosed in relation to the Company's investments disclosure in the financial statements of the Company.

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

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

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

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

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

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

TREND STATEMENT

	2012 $000	2011 $000	2010 $000	2009 $000	2008 $000	2007 $000
Financial Performance						
Operating revenue	**$217,198**	$229,373	$220,274	$246,686	$250,056	$205,516
EBITDA and one-off costs	**12,278**	31,916	27,257	31,643	39,960	33,952
Depreciation	**(6,738)**	(6,315)	(5,581)	(6,643)	(6,762)	(5,600)
Amortisation	**–**	–	–	–	–	–
EBIT and one-off costs	**5,540**	25,601	21,676	25,000	33,198	28,352
Net interest expense	**(4,049)**	(3,545)	(3,478)	(5,936)	(6,493)	(4,427)
Share of tax-paid profit/(loss) of equity-accounted investees	**3,302**	2,039	4,015	430	(5)	(213)
Profit before income tax (normalised)	**4,793**	24,095	22,213	19,494	26,700	23,712
Income tax expense	**(510)**	(6,829)	(5,586)	(5,843)	(8,763)	(7,815)
Profit after tax (normalised)	**4,283**	17,266	16,627	13,651	17,937	15,897
Non-controlling interests	**–**	–	–	–	–	–
Profit after tax attributable to shareholders of the company (normalised)	**4,283**	17,266	16,627	13,651	17,937	15,897
One-off costs (after tax)	**(5,916)**[1]	914[2]	(5,258)[3]	1,238[4]	–	(173)[5]
Profit/(Loss) after tax attributable to shareholders of the company (reported)	**(1,633)**	18,180	11,369	14,889	17,937	15,724
Ordinary dividends paid	**(7,509)**	(12,233)	(10,104)	(12,075)	(12,867)	(12,117)
Profit/(Loss) after dividends	**$(9,142)**	$5,947	$1,265	$2,814	$5,070	$3,607
Financial Position						
Shareholders' equity	**90,855**	99,294	91,451	87,595	85,104	72,568
Loans and borrowings	**68,503**	60,070	51,776	54,585	81,000	65,161
Term liabilities	**5,591**	4,927	6,526	6,324	6,835	3,115
Deferred tax liability	**–**	–	726	–	–	–
Current liabilities	**36,485**	51,434	40,545	47,960	49,206	36,553
Shareholders' equity and total liabilities	**$201,434**	$215,725	$191,024	$196,464	$222,145	$177,397
Fixed assets	**75,080**	80,110	75,878	77,013	99,669	89,374
Investment in equity-accounted investees	**22,593**	22,291	20,095	18,859	169	174
Goodwill and other intangibles	**7,502**	7,502	5,292	5,533	11,137	4,270
Deferred tax asset	**1,998**	158	–	3,175	1,999	3,327
Non-current assets	**107,173**	110,061	101,265	104,580	112,974	97,145
Current assets	**94,261**	105,664	89,759	91,884	109,171	80,252
Total assets	**$201,434**	$215,725	$191,024	$196,464	$222,145	$177,397

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

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

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

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

[5] Adjustments to deferred tax accounts for the effects of the impending changes in domestic income tax rate

	2012	2011	2010	2009	2008	2007
Financial Ratios and Summary						
Use of Funds and Return on Investment						
Return on average shareholders' equity (normalised)	**4.5%**	18.1%	18.6%	15.8%	22.8%	22.5%
NOPAT : Total funds employed (normalised)	**4.4%**	10.8%	12.9%	11.5%	13.2%	13.5%
Basic and diluted earnings per ordinary share (normalised)	**6.3c**	25.4c	24.6c	20.3c	27.1c	24.3c
Financial Structure						
Net tangible asset backing per ordinary share	**$1.22**	$1.34	$1.27	$1.22	$1.10	$1.04
Proprietorship ratio	**45.1%**	46.0%	47.9%	44.6%	38.3%	40.9%
Net interest-bearing debt : equity ratio	**42:58**	40:60	35:65	42:58	50:50	48:52
Net interest cover (normalised) (times)	**2.4**	7.2	7.5	4.2	5.1	6.4
Return to Shareholders						
Dividends paid per ordinary share (excluding supplementary)	**11.0c**	18.0c	15.0c	18.0c	19.5c	18.5c
Dividend imputation	**100%**	100%	100%	100%	100%	100%
Ordinary dividend cover (normalised) (times)	**0.6**	1.4	1.6	1.1	1.4	1.3
Supplementary dividends paid per ordinary share	**1.94c**	3.18c	2.65c	3.18c	3.44c	3.26c
Share Price						
June	**$1.52**	$3.80	$2.45	$1.80	$2.28	$3.22
52 week high	**$3.83**	$4.00	$2.95	$3.10	$3.43	$3.65
52 week low	**$1.41**	$2.33	$1.80	$1.15	$2.28	$3.00
Market Capitalisation ($000)						
June	**$103,761**	$259,403	$166,197	$120,748	$152,948	$210,896
Capital Expenditure and Depreciation ($000)						
Capital expenditure	**$2,457**	$5,391	$6,002	$12,510	$9,656	$6,995
Depreciation	**$6,738**	$6,315	$5,581	$6,643	$6,762	$5,600

GLOSSARY OF FINANCIAL TERMS

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

USE OF FUNDS AND RETURN ON INVESTMENT

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

FINANCIAL STRUCTURE

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

RETURN TO SHAREHOLDERS

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

OTHER STATUTORY DISCLOSURES

DISCLOSURES UNDER THE COMPANIES ACT 1993

Year ended 30 June 2012

DIRECTORS (s211(1)(i))

The Directors of the Company as at 30 June 2012 were:

G C W Biel

W K Chung

G S Hawkins

A M James

C A McKenzie (appointed 15 March 2012)

K L Thorpe

V T S Tan and D W Huse resigned from the Board with effect from 15 March 2012 and 27 April 2012 respectively.

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

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

Use of company information (s145)

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

Remuneration (s161)

During the year, the Board authorised increases in the base remunerations of W K Chung and V T S Tan by $31,850 per annum and $24,500 per annum with effect from 1 July 2011 respectively.

The Board also authorised, during the year,:

- increases in the directors' fees payable to each of G C W Biel, D W Huse and K L Thorpe by $3,000 per annum with effect from 1 July 2011;

- increase in the directors' fees payable to G S Hawkins by $9,000 per annum, with $6,000 of that increase in respect of G S Hawkin's role as Chairman of the Board's Audit Committee, with effect from 1 July 2011; and

- increase in the directors' fees payable to A M James by $6,000 per annum with effect from 1 July 2011.

The last time directors' fees paid to the non-executive Directors were increased was on 1 January 2008.

Indemnity and Insurance (s162)

During the year, the Company effected directors' and officers' liability insurance to cover, to the extent normally covered by such policies, the risks arising out of the acts or omissions of the Directors and employees of the Company and its subsidiaries in their capacity as such for the period from 1 July 2012 to 30 June 2013. The cost of this cover is $22,280.

Share dealing (s148)

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

INTERESTS REGISTER (continued)

Share dealing (continued)

Directors' relevant interests in shares in the Company as at 30 June 2012 were[3, 4]:

G C W Biel	
Beneficial	–
Other	8,467,642
W K Chung	
Beneficial	220,776 [2]
Other	–
G S Hawkins	
Beneficial	10,250 [2]
Other	–
A M James	
Beneficial	373,045 [2]
Other	–
K L Thorpe	
Beneficial	21,000
Other	–

Directors' relevant interests in rights under the Cavalier Corporation Limited 2000 Executive Share Rights Plan[1] as at 30 June 2012 were[4]:

C A McKenzie	
Beneficial	270,000 [2]
Other	–
W K Chung	
Beneficial	480,000 [2]
Other	–

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

[1] A summary of the terms of the Plan is set out on pages 57 to 60 of this document (note 19 of the Notes to the Financial Statements).

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

[3] D W Huse, who resigned from the Board on 27 April 2012, had a beneficial relevant interest in 8,169 shares in the Company at 30 June 2012.

[4] V T S Tan, who resigned from the Board on 15 March 2012, had a beneficial relevant interest in 167,479 shares and 320,000 share rights (including those held by trusts of which he is a beneficiary) in the Company at 30 June 2012.

DISCLOSURES UNDER THE COMPANIES ACT 1993 (continued)

Year ended 30 June 2012

INTERESTS REGISTER (continued)

Specific disclosures of interest (s140(1))

No specific disclosures of interest were received during the year.

General disclosures of interest (s140(2))

General disclosures of interest that have been received and are still current[1]:

G C W Biel	Director of: Auckland Air Charter Limited Auckland Jet Centre Limited Heli Harvest Limited International Helicopter Leasing Limited Westburn Investments Limited Director and shareholder of: Bay Cliffe Industries Limited Baycliffe Enterprises Limited Bondworth Carpets Limited Heli Harvest Management Limited Rural Aviation (1963) Limited
W K Chung	Director of: Cavalier Wool Holdings Limited Cavalier Woolscourers Limited Lanolin Trading Co. Limited Trustee of: JWJ Family Trust JVT Family Trust
G S Hawkins	Director of: Ports of Auckland Limited Southern Cross Health Trust Southern Cross Medical Care Society Director and shareholder of: Hawkins Consulting Services Limited Ignition Development Limited Stableburn Farms Limited Trustee of: Hawkins Family Trust McDowell Family Trust

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

INTERESTS REGISTER (continued)

General disclosures of interest (continued)

A M James	None
C A McKenzie	Director of: Cavalier Wool Holdings Limited (appointed 26 March 2012) Cavalier Woolscourers Limited (appointed 26 March 2012)
K L Thorpe	Director and shareholder of: Custom Consulting Limited

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

The total remuneration and value of other benefits earned (received, and due and receivable) by each of the Directors of the Company for the year ended 30 June 2012 were:

	2012	2011
G C W Biel	**$48,000**	$45,000
W K Chung[1]	**$1,202,505**	$619,609
R G Ebbett[2]	–	$112,875
G S Hawkins	**$54,000**	$45,000
D W Huse[3]	**$39,467**	$45,000
A M James	**$96,000**	$90,000
C A McKenzie[4]	**$442,245**	$456,382
V T S Tan[4]	**$414,927**	$465,110
K L Thorpe	**$48,000**	$45,000

[1] The amount that was paid to W K Chung during the year comprised total remuneration and value of other benefits (including retiring allowances, long service leave and holiday pay accrued) up until his retirement as an executive director (including Managing Director) on 30 April 2012 of $1,194,505 and directors' fees for the period from 1 May 2012 to 30 June 2012 of $8,000.

[2] The amount that was paid to R G Ebbett in the previous year comprised directors' fees of $16,875 for the period from 1 July 2010 to 15 November 2010, when he retired from the Board, and a retiring allowance of $96,000.

[3] The amount that was paid to D W Huse during the year comprised directors' fees for the period from 1 July 2011 to 27 April 2012, when he resigned from the Board.

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

DISCLOSURES UNDER THE COMPANIES ACT 1993 (continued)

Year ended 30 June 2012

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

The number of employees of the Company and its subsidiaries (excluding employees holding office as directors of the Company, but including other employees holding office as directors of subsidiaries) whose remuneration and value of other benefits for the year ended 30 June 2012 fall into the various brackets specified by the Companies Act 1993 is as follows:

Remuneration and value of other benefits $[1]	NUMBER OF EMPLOYEES 2012	2011
100,000 – 109,999	**29**	27
110,000 – 119,999	**23**	22
120,000 – 129,999	**14**	22
130,000 – 139,999	**20**	19
140,000 – 149,999	**7**	4
150,000 – 159,999	**6**	6
160,000 – 169,999	**4**	3
170,000 – 179,999	**4**	7
180,000 – 189,999	**4**	2
190,000 – 199,999	**3**	6
200,000 – 209,999	**2**	3
210,000 – 219,999	**1**	2
220,000 – 229,999	**–**	1
230,000 – 239,999	**4**	5
240,000 – 249,999	**1**	1
250,000 – 259,999	**2**	1
260,000 – 269,999	**–**	–
270,000 – 279,999	**–**	–
280,000 – 289,999	**–**	1
290,000 – 299,999	**–**	–
300,000 – 309,999	**–**	–
310,000 – 319,999	**–**	–
320,000 – 329,999	**1**	–
330,000 – 339,999	**–**	–
340,000 – 349,999	**–**	1
350,000 – 359,999	**–**	–
360,000 – 369,999	**1**	–
770,000 – 779,999	**–**	1
Total number of employees	**126**	134

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

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

Refer to page 42 of the Annual Report (note 6 of the Notes to the Financial Statements).

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

Refer to page 42 of the Annual Report (note 6 of the Notes to the Financial Statements).

SUBSIDIARY COMPANY DIRECTORS (s211(2))

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

Subsidiaries	Directors
Cavalier Bremworth Limited Knightsbridge Carpets Limited Cavalier Spinners Limited E Lichtenstein and Company Limited Elco Direct Limited Elcopac Limited Elcotex Limited Elcowool Limited e-Wool Limited Heron Distributors Limited Cavalier Bremworth (North America) Limited EnCasa Carpets Limited Microbial Technologies Limited Northern Prospecting Limited	W K Chung C A McKenzie (appointed 10 May 2012) V T S Tan (resigned 11 May 2012)
Cavalier Holdings (Australia) Pty. Limited Cavalier Bremworth Pty. Limited Kimberley Carpets Pty. Limited Cavalier Bremworth (Australia) Limited	W K Chung C A Howitt C A McKenzie (appointed 11 May 2012) V T S Tan (resigned 11 May 2012)
Ontera Modular Carpets Pty. Limited Ontera Modular Carpets Limited	W K Chung C A McKenzie (appointed 11 May 2012) D Rowlinson (appointed 1 July 2011) E Allemano (resigned 1 July 2011) V T S Tan (resigned 11 May 2012)
Norman Ellison Carpets Limited Carpet Distributors Limited Horizon Yarns Limited NEC Limited	W K Chung C A McKenzie (appointed 11 May 2012) W B Norman V T S Tan (resigned 11 May 2012)
Norman Ellison Carpets Pty. Limited	W K Chung M A Gannon (appointed 29 June 2012) C A McKenzie (appointed 11 May 2012) T J Rosewarne (resigned 29 June 2012) V T S Tan (resigned 11 May 2012)
Radford Yarn Technologies Limited	W K Chung C A McKenzie (appointed 11 May 2012) E C Radford V T S Tan (resigned 11 May 2012)

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

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

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

DISCLOSURES UNDER THE NEW ZEALAND EXCHANGE LISTING RULES

As at 31 July 2012

ANALYSIS OF SHAREHOLDINGS (LISTING RULE 10.5.5)

	Number of shareholders	%	Shares held	%
Size of shareholdings				
Up to 199	111	2.07	9,072	0.01
200 – 499	192	3.57	66,431	0.10
500 – 999	340	6.33	244,199	0.36
1,000 – 1,999	966	17.99	1,374,443	2.01
2,000 – 4,999	1,636	30.46	5,167,447	7.57
5,000 – 9,999	1,072	19.96	7,218,805	10.57
10,000 – 49,999	944	17.57	16,807,888	24.62
50,000 – 99,999	65	1.21	4,237,213	6.21
Over 99,999	45	0.84	33,138,359	48.55
	5,371	100.0	68,263,857	100.0
Location of shareholdings				
New Zealand	5,227	97.32	66,813,322	97.88
Overseas – Australia	81	1.51	1,003,457	1.47
– Others	63	1.17	447,078	0.65
	5,371	100.0	68,263,857	100.0

	Shares held	%
Top 20 shareholders		
Chippendale Holdings Limited	9,174,312	13.44
Rural Aviation (1963) Limited	8,467,642	12.40
New Zealand Central Securities Depository Limited	3,969,392	5.81
Superlife Trustee Nominees Limited (SL NZ A/c)	1,100,798	1.61
Custodial Services Limited (A/c 3)	900,530	1.32
Masfen Securities Limited	787,500	1.15
Nortie Properties Limited	755,460	1.11
Anthony Charles Timpson	420,732	0.62
Alan Michael James and Ann White James (JWJ Super Fund)	373,045	0.55
Warwick Bruce Norman & Averil Rosemary Norman & Linda Margaret Arbuckle & David Gloster Daniel (Paget Street Family A/c)	344,540	0.50
New Zealand Depository Nominee Limited (A/c 1) Cash Account	333,021	0.49
NZPT Custodians (Grosvenor) Limited	332,628	0.49
Custodial Services Limited (A/c 4)	323,747	0.47
Forsyth Barr Custodians Limited (1-33)	313,280	0.46
FNZ Custodians Limited	304,634	0.45
Custodial Services Limited (A/c 2)	294,825	0.43
Custodial Services Limited (A/c 18)	254,945	0.37
J & D Sands Limited	250,000	0.37
Mary Dorcas Spackman	250,000	0.37
Nicolaas Johannes Kaptein	235,000	0.34
	29,186,031	42.75

NEW ZEALAND CENTRAL SECURITIES DEPOSITORY LIMITED

New Zealand Central Securities Depository Limited provides a custodial depository service to offshore and institutional shareholders and does not have a beneficial interest in the shares registered in its name. The beneficial owners of the shares registered in its name as at 31 July 2012 were:

	Shares held	%
Accident Compensation Corporation	1,775,738	2.60
Citibank Nominees (New Zealand) Limited	688,588	1.01
National Nominees New Zealand Limited	520,265	0.76
New Zealand Superannuation Fund Nominees Limited	356,511	0.52
Cogent Nominees (NZ) Limited	259,717	0.38
NZGT Nominees Limited – AMP Capital NZ Shares Index Fund	124,451	0.18
New Zealand Permanent Trustees Limited	99,167	0.15
Private Nominees Limited	59,830	0.09
Tea Custodians Limited	35,608	0.05
HSBC Nominees (New Zealand) Limited A/c State Street	22,159	0.03
Courtenay Nominees Limited	21,000	0.03
HSBC Nominees (New Zealand) Limited	4,006	0.01
JPMorgan Chase Bank NA	2,352	0.00
	3,969,392	5.81

DIRECTORS' AND ASSOCIATED PERSONS' SHAREHOLDINGS

	30 JUNE 2012	
	Beneficial	Non-Beneficial
Shares [1, 2]		
G C W Biel		8,528,762 [3]
W K Chung	220,776 [5]	–
G S Hawkins	10,250 [5]	–
A M James	373,045 [5]	–
K L Thorpe	21,000	–
Rights under the Cavalier Corporation 2000 Executive Share Rights Plan [2, 4]		
C A McKenzie	270,000 [5]	–
W K Chung	480,000 [5]	–

1 D W Huse, who resigned from the Board on 27 April 2012, had a beneficial relevant interest in 8,169 shares in the Company at 30 June 2012.

2 V T S Tan, who resigned from the Board on 15 March 2012, had a beneficial interest in 167,479 shares and 320,000 share rights (including those held by trusts of which he is a beneficiary) and a non-beneficial interest in 1,483 shares in the Company at 30 June 2012.

3 Includes 61,120 held by associated persons.

4 A summary of the terms of the Plan is set out on pages 57 to 60 of this document (note 19 of the Notes to the Financial Statements).

5 Includes those held by trusts of which the Director is a beneficiary.

DISCLOSURES UNDER THE SECURITIES MARKETS ACT 1988

As at 31 July 2012

SUBSTANTIAL SECURITY HOLDERS (s35F)

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

	Number of ordinary shares (being the only class of listed voting securities) where relevant interest exists
G C W Biel	8,467,642
Chippendale Holdings Limited	8,886,490
Rural Aviation (1963) Limited	8,467,642
Tony Timpson Family Trust	8,902,164

The total number of ordinary shares, being the only class of listed voting securities in the Company, as at 31 July 2012 was 68,263,857.

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

CORPORATE DIRECTORY

BOARD OF DIRECTORS

G C W Biel B.E. (Mech.) *Non-executive, Non-independent*	Deputy Chairman of the Board Member of Audit Committee Member of Remuneration Committee
W K Chung B.Com.[1] *Non-executive, Non-independent*	Member of Audit Committee Member of Remuneration Committee
G S Hawkins B.Sc., B.Com., ACA, FInstD *Non-executive, Independent*	Chairman of Audit Committee Member of Remuneration Committee
S E F Haydon B.Sc., ACA[2] *Non-executive, Independent*	Member of Audit Committee Member of Remuneration Committee
A M James B.Tech. (Hons.), Dip.Bus.Admin. *Non-executive, Independent*	Chairman of the Board Member of Audit Committee Chairman of Remuneration Committee
C A McKenzie Dip.Wool&WoolTech.[3]	Managing Director and Chief Executive Officer
K L Thorpe M.A. *Non-executive, Independent*	Member of Audit Committee Member of Remuneration Committee

COMPANY SECRETARY

V T S Tan CA, ACIS

FOUNDING SHAREHOLDER

A C Timpson ONZM, FInstD

REGISTERED OFFICE

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

SHARE REGISTRAR

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

AUDITORS

KPMG

LEGAL ADVISOR

Minter Ellison Rudd Watts

BANKERS

Bank of New Zealand   National Australia Bank Limited

[1] Managing Director and Chief Executive Officer until 15 March 2012, executive director until 30 April 2012 and non-executive non-independent director thereafter
[2] Appointed with effect from 14 August 2012
[3] Managing Director and Chief Executive Officer with effect from 15 March 2012

CORPORATE DIRECTORY (continued)

CORPORATE

Managing Director and Chief Executive Officer	C A McKenzie
Chief Financial Officer and Company Secretary	V T S Tan
Information Services Manager	M N McElroy
Group Financial Controller	M S Gair

CARPET OPERATIONS

Cavalier Bremworth

Chief Executive Officer	B L Wollaston

Norman Ellison Carpets

Chief Executive Officer	W B Norman

Ontera Modular Carpets

Chief Executive Officer	D Rowlinson

YARN OPERATION

Radford Yarn Technologies

General Manager	M J Ingram

WOOL OPERATIONS

Elco Direct

General Manager	R P Cooper

Cavalier Wool Holdings

Chief Executive Officer	N R Hales

WEBSITES

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

CAVALIER
CORPORATION

BREMWORTH COLLECTION

CAVALIER BREMWORTH

Knightsbridge Carpets

Kimberley CARPETS

ELCODIRECT WOOL BUYERS

RadfordYarn New Zealand

tramore

Norman Ellison CARPETS

Ontera A STEP AHEAD