CAVALIER CORPORATION LIMITED

2012/13 ANNUAL REPORT
YEAR ENDED 30 JUNE 2013

Reinventing ourselves

CAVALIER
CORPORATION

VALUES

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

VISION

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

MISSION

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

As required by section 211(1)(k) of the Companies Act 1993, the 2013 Annual Report of Cavalier Corporation Limited is signed on behalf of the Board on 16 September 2013 by:

A M JAMES – Chairman

C A MCKENZIE – Managing Director

EXEMPLAR –
The 42 oz loop pile carpet that features a contemporary dual-coloured mega dot pattern. Exemplar is part of the contract heavy duty ***Cavalier Commercial*** *collection, which focuses on durability and quality and comes in both wool and synthetic fibres.*

COVER
ONTERA'S SOUTHERN LIGHTS AND ULTRA ACCENTS
Project: *Kardinia International College's Katsumata Centre, which was developed as a tribute to renowned educational advocate and founder of the school, Mr Yoshimaro Katsumata. Based in Melbourne, the brief was to create a multiuse facility which symbolises the school's progressive approach to educational delivery and the culture that it embodies.*

TABLE OF CONTENTS

ONTERA'S ENVISIONS, SOUTHERN LIGHTS AND CUSTOM DYESTART

Project: *Red Cross Headquarters in Sydney, where the three products were used in different pattern combinations to distinguish the areas throughout the building.*

2012/13 IN BRIEF

REVENUE

$15 million/

7% drop from $217 million to $202 million, with carpet revenue down $10 million and wool and yarn revenues down $5 million

NORMALISED TAX-PAID EARNINGS

55% increase from $4.3 million to **$6.6 million,** with carpet earnings largely unchanged on the previous year as improved business conditions in New Zealand were negated by the subdued operating environment in Australia. Earnings by the wool businesses were, however, much improved

REPORTED PROFIT AFTER TAX

$3.0 million, as a consequence of $3.6 million after tax (or $5.0 million pre-tax) of net costs relating to the business restructuring initiatives undertaken or committed to during the year

FINANCIAL POSITION

$13.3 million/**20% drop**

in net interest-bearing debt from $66.6 million to **$53.3 million,** as the Group continued to strengthen its financial position by focusing on working capital utilisation and discretionary spending

Net interest-bearing debt : Equity improved to 36 : 64, compared with 42 : 58 the previous year, as a consequence of a debt reduction programme and earnings retained within shareholders' equity

FINAL DIVIDEND

4 cents per share, fully imputed

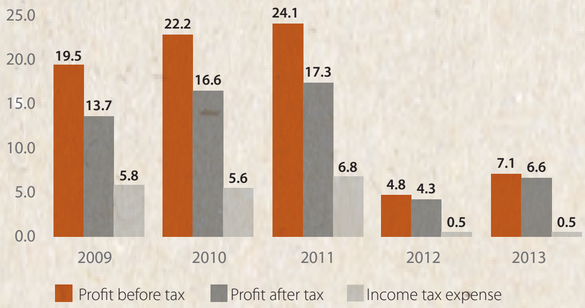
BUSINESS IMPROVEMENT INITIATIVES

Successful consolidation of three yarn spinning mills into two and combination of two Auckland-based warehousing and distribution operations

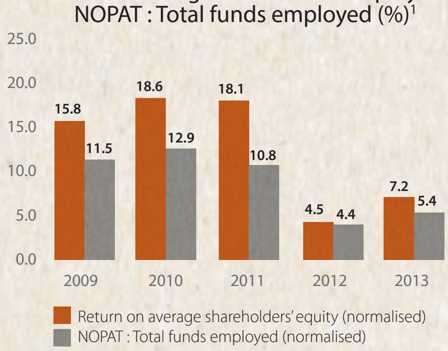
FINANCIAL OVERVIEW

YEAR ENDED 30 JUNE 2013

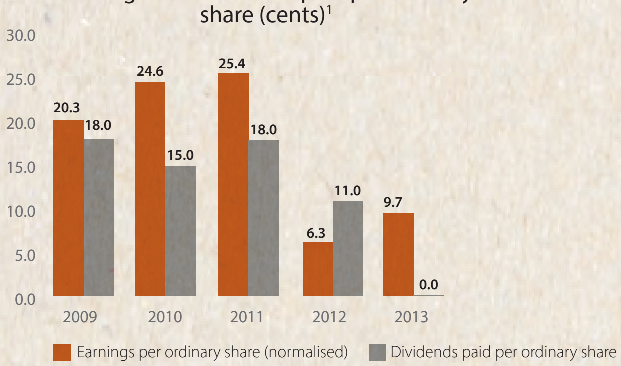
Financial results (normalised) ($ millions)[1]



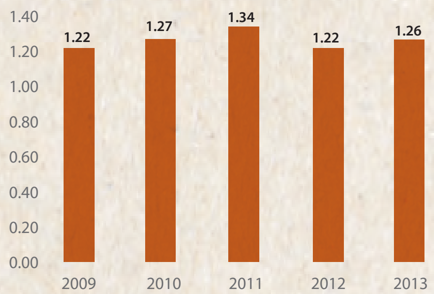
Return on average shareholders' equity and NOPAT : Total funds employed (%)[1]



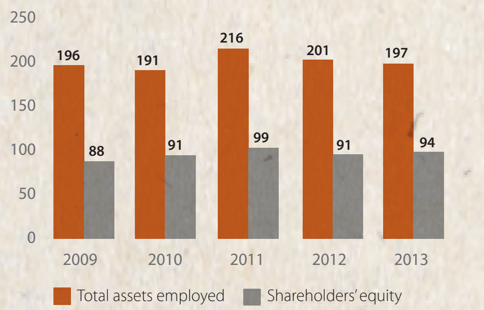
Earnings and Dividends paid per ordinary share (cents)[1]



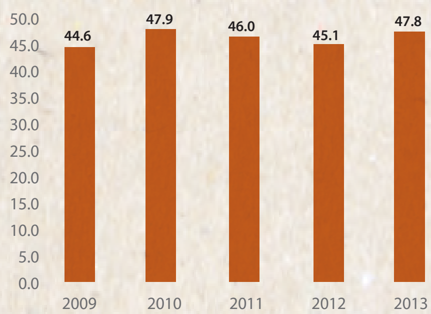
Net tangible asset backing per ordinary share ($)



Total assets employed and Shareholders' equity ($ millions)



Proprietorship ratio (%)



[1] The normalised results are derived from the reported results as per the audited financial statements, adjusted for one-off items.

REINVENTING OURSELVES TO COPE WITH THE NEW LANDSCAPE

In 2011/12, there were unprecedented and wide-ranging changes to the operating environment for our core broadloom carpet business. In response, we embarked on a programme that has seen us reinvent ourselves so that we can better deal with these changes. This programme, which is now well-advanced and expected to be completed in 2013/14, will see us not only well-positioned to lift future profitability, but also better-equipped to cope with future changes in operating conditions.

"...We know the landscape has changed substantially. Continual cost cutting is simply not sustainable so we are compelled to reinvent ourselves to some degree...We have had a cold hard look in the mirror and developed robust plans and initiatives that we will be implementing over the next six months to 12 months."

Extracts from address of Managing Director, Colin McKenzie, to shareholders at 16 November 2012 Annual Meeting.

2011/12 ...

repositioning of the broadloom carpet business in response to fundamental changes in the operating environment

✓ **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 efficiency**
.... with the closure of one of our three spinning mills

→ **Inventory reduction programme**
.... alongside the embracing of lean enterprise practices

✓ **Consolidation of warehousing and distribution**
.... by combining the two Auckland-based warehousing and distribution operations for the broadloom carpet business

KEY:

→ In progress/Ongoing ✓ Complete

2012/13 ...

further repositioning of the broadloom carpet business in terms of cost base, capacity, structure, product portfolio, channels and market

→ **Consolidation of broadloom carpet tufting operations**
.... by relocating the Onehunga tufting operation of subsidiary, Norman Ellison Carpets, to the main tufting site in Papatoetoe, Auckland; and
.... reducing over-capacity and improving manufacturing efficiency in the process

✓ **Combination of the sales teams in New Zealand and Australia**
.... allowing for a more structured and efficient approach to meet market needs
.... while recognising the different propositions of the various brands within the broadloom carpet business and allowing them to continue to co-exist

→ **Aligning and simplifying the way we do business**
.... by addressing our brand strategy, rationalising our product portfolio, actively engaging with our channel partners and looking at our own organisational structure to ensure we achieve these objectives

CAVALIER
CORPORATION

OPERATIONS

WOOL

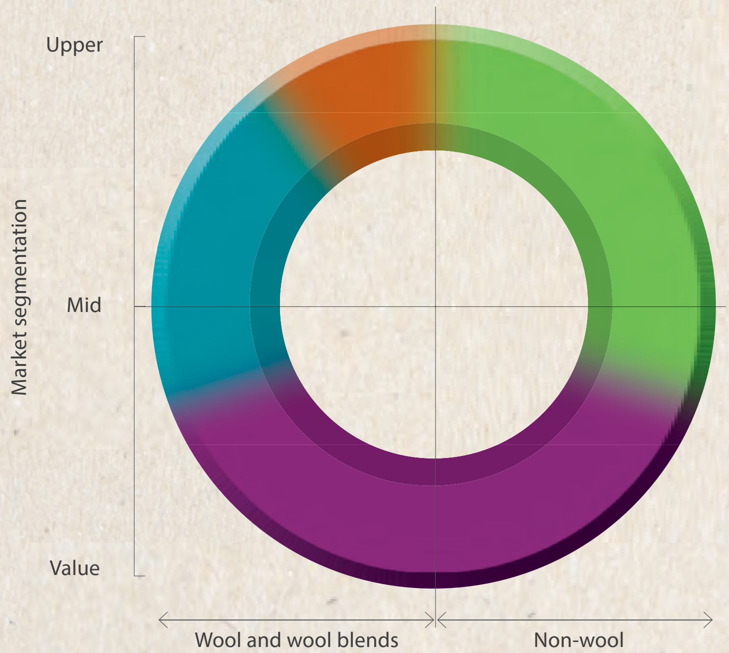
- **ElcoDirect Wool Buyers:** Elco Direct – on-farm wool buying business servicing the Group's woollen carpet business and New Zealand's wool exporting industry at large
- Cavalier Wool Holdings – 50%-owned business providing commission wool scouring for the wool exporting industry and the Group's woollen carpet operations

YARN & BROADLOOM CARPETS

- Radford Yarn – producer of premium felted wool yarns for high-end rug and carpet makers around the world, including the Group's broadloom carpet operation, Cavalier Bremworth
- **Cavalier Bremworth / Norman Ellison Carpets:** Cavalier Bremworth – manufacturer of comprehensive range of carpets marketed under two distinct brands, mid to upper-end Cavalier Bremworth and mid to value-end Norman Ellison Carpets, focusing mainly on New Zealand and Australia, but with an increasing emphasis on rest of world markets

CARPET TILES

- **Ontera – A step ahead:** Ontera – one of Australasia's leading carpet tile manufacturers with both standard and custom designed tiles that cover the whole spectrum of commercial applications



RESIDENTIAL PRODUCT PORTFOLIO REALIGNMENT

Bremworth Collection

The premium Cavalier Bremworth designer range of residential products made from pure wool. The collection is all about luxury and sophistication aimed at the upper-end of the market.

Cavalier Bremworth

Encapsulating timeless classics to bold new styles, the Cavalier Bremworth range offers the biggest choice of pure wool carpets designed for the mid to upper-end of the market.

Habitat Collection

An exclusive collection of synthetic residential carpets from Cavalier Bremworth which offers exceptional performance. Like Cavalier Bremworth, it is targeted at the mid to upper-end of the market.

Norman Ellison Carpets

With products ranging from 100% wool and wool blends to man-made fibres, Norman Ellison Carpets covers the rest of the market with its broad range of offerings.

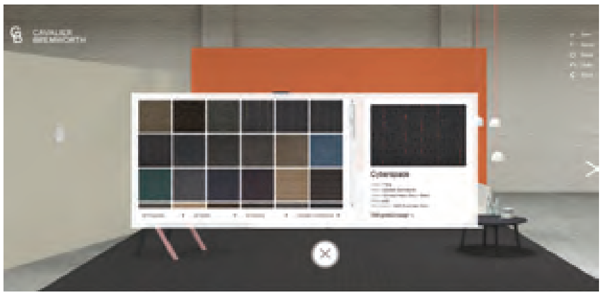
GOING FORWARD

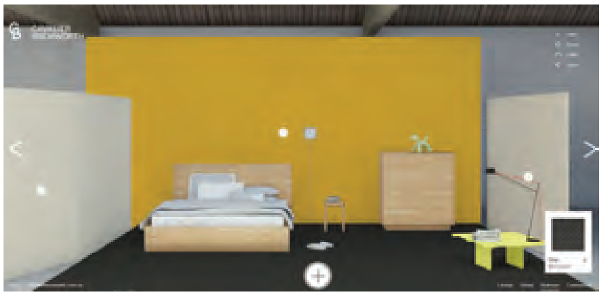
- Cavalier Bremworth to remain the premium wool carpet brand in both New Zealand and Australia with growth in other export markets.
- Leverage Cavalier Bremworth's brand and reputation to be a premier mid to upper-end synthetic carpet supplier.
- Compete in the mid to value-end of the market with Norman Ellison Carpets.

YEAR AT A GLANCE

Arcot was a new Bremworth Collection addition during the year. It is a soft cut pile carpet using two similar yarn shades to create a multi-faceted appearance.

In June 2013, Cavalier Bremworth introduced a new 3D design website tool that allows site visitors to experiment with varying carpet textures and colours in different settings. Called **The Studio Floor**, the tool is designed to be user-friendly and to focus the user primarily on the carpet as the centrepiece.





HABITAT COLLECTION

Habitat Collection, the Cavalier Bremworth 'endorsed' brand for the new range of solution dyed nylon products, was introduced in March to New Zealand and July to Australia. The collection, which has a strong fade-resist and stain-resist story, leverages the strength and quality of the Cavalier Bremworth brand while keeping our wool and synthetic ranges separate.

NORMAN ELLISON CARPETS

As part of the decision to align and simplify the way we do business, five separate brands were collapsed into two, making it easier and more cost-effective to manage and creating clear distinctions between the two in the market. In Australia, the sales teams of Norman Ellison Carpets and Cavalier Bremworth were also merged to provide more effective service to retailers.

Knightsbridge and Kimberley – the two mid to value-end brands used in New Zealand and Australia with the same product set – were withdrawn from the market and products were rearranged under a refreshed Norman Ellison Carpets brand.

Foss was the first new range in Cavalier Bremworth to be launched using our world-first Flashbac recycled backing. This chunky felted loop pile has a great environmental story and was well received by the market, particularly designers and architects.

LISBURN –
The 52 oz linen-look loop pile carpet, from the ***Bremworth Collection****, Cavalier Bremworth's premium designer range that is focused on luxury and sophistication. Using a Radford Yarn Technologies felted chunky base yarn, overlaid with a finer yarn, to create textural and visual impact, newly-launched Lisburn has both softness and substance.*

Ontera launched the Design Freedom concept during the year to highlight its unique ability to provide customised modular carpet.

Design Freedom is all about bringing the design vision to life... customising and creating a carpet solution to perfectly suit a project design.

Supported by a striking print and digital communication campaign, Design Freedom provides to the marketplace a clear message of Ontera's unique brand offering.

For the second consecutive year, Ontera's association with the **Dance for Life** event was an outstanding success. Over 700 architects and designers packed into the Sydney venue to be amazed by a scintillating display of brilliantly choreographed dance performances. While it was a great night for all, the event also raised $50,000 for the Inspire Foundation.

The social media world has quickly proven its power and influence in business circles on a global scale. Ontera has embraced this new media with a presence on Facebook, You Tube and Instagram. The unique ability to interact with our customers, gain instant feedback on market trends and highlight our unique designs is proving invaluable.

Inspired by the rich and vibrant colours that distinguish yet connect global cultures… Ontera's new 180^0 range delivers 12 stunning colours with four unique linear designs in each colourway – enabling opportunity and creativity for modern spaces. The versatile new 180^0 range is the culmination of an extensive design research journey, where we explored architecture, traditions, customs and fashions from around the globe, gaining insights into the cultural significance of colour and design in all aspects of daily life.

ONTERA'S SOUTHERN LIGHTS
Project: *ENI House, a six storey building containing a variety of businesses and retail outlets in Perth's CBD. Ontera's Southern Lights "Delta Red" tile was specifically selected for its distinctive linear design and vibrant colouring , with the "Polar" and "Aurora" designs blended together to create two unique and eye-catching shapes on the floor.*

MANAGING DIRECTOR'S REVIEW

YEAR ENDED 30 JUNE 2013

There has been a considerable effort to reorganise and reshape the business in terms of cost base, product offerings and brand strategy, and we believe the Company is now well-positioned to lift future profitability. *– C A McKenzie*

FINANCIAL PERFORMANCE

The Directors of Cavalier Corporation announce an audited after tax profit for the year to 30 June 2013 of $3.0 million, compared with the $1.6 million after tax loss reported in 2012.

On 18 June this year, Cavalier Corporation advised the market that it will be consolidating its carpet tufting operations by relocating the Onehunga tufting operation of its subsidiary, Norman Ellison Carpets, to its main tufting site in Papatoetoe, Auckland. The restructuring will reduce the manufacturing cost base and improve future results. However, there were extraordinary costs in the form of provisions that had to be recognised at year-end. The tax paid costs associated with the tufting relocation are $4.1 million which has partially been offset by releases of provisions taken up in the previous year to the value of $519,000. Excluding these two one-off adjustments, the normalised operating profit after tax is $6.6 million, compared with the previous year of $4.3 million, a 55% increase.

Directors advised in June 2013 that they were expecting normalised earnings for the year ended 30 June 2013 to be at the lower end of the $6 to $10 million after tax range. At the same time, the Directors also advised that restructuring/relocation costs associated with the consolidation of tufting would reduce normalised earnings by $4.0 to $4.5 million after tax. As a consequence, final results as announced are within the guidance ranges previously provided.

Revenue for the Group of $202 million is down 7% on the previous period, with New Zealand and Australian revenue down 9.4% and 5.6% respectively. Australia now represents 55% of total revenue, compared with 54% in 2012.

The normalised earnings improvement of 55% is a move in the right direction and a reflection of management's efforts to reduce the cost base in the last couple of years and the slightly better market conditions in New Zealand.

FINANCIAL POSITION

The Group's financial position has improved with the focus on debt reduction and cost savings throughout the year.

The Group's net interest-bearing debt as at 30 June 2013 of $53.3 million is down $13.3 million on the $66.6 million reported last year, a 20% improvement. This is largely due to lower levels of stock and debtors and reduced capital and discretionary spending.

As a result of the reduction in debt, net interest-bearing debt to equity ratio has improved from 42:58 last year to 36:64 this year.

The Group's total assets as at 30 June 2013 are $197 million, a decrease of $5 million on the previous year. This has been brought about by the decrease in inventory as a consequence of the continuation of the stock reduction programme initiated in 2012 and a $6.1 million decrease in fixed assets caused by reduced capital expenditure. Offsetting this is a $3.9 million increase in cash held at balance date and a $2.5 million increase in derivative financial instruments reflecting the gains made on future hedging instruments.

Shareholders' equity as at 30 June 2013 was $93.9 million – up $3.1 million on the previous year, mainly from increased retained earnings.

FINANCIAL PERFORMANCE

Year ended 30 June 2013	2013 $000s	2012 $000s	Change
Revenue	**$201,739**	$217,198	(7%)
Earnings before interest and tax (Normalised)[1]	**5,814**	5,540	5%
Interest	**(3,740)**	(4,049)	(8%)
Share of equity-accounted investee profit (tax-paid)	**5,013**	3,302	52%
Profit before tax (Normalised)[1]	**7,087**	4,793	48%
Income tax	**(463)**	(510)	(9%)
Profit after tax (Normalised)[1]	**6,624**	4,283	55%
Restructuring costs (net of tax)	**(3,594)**	(5,916)	(39%)
Profit/(Loss) after tax (Reported)	**$3,030**	$(1,633)	
Earnings per share (cents) (Normalised)[1]	**9.7**	6.3	54%
Earnings per share (cents) (Reported)	**4.4**	(2.4)	

[1] Normalised is a non–GAAP (Generally Accepted Accounting Practice) measure. The Directors acknowledge that the information presented in the table above includes financial information that is non-GAAP. The Directors believe that the non-GAAP financial information provides useful information to investors regarding the performance of the Group because the calculations exclude items that are not normally expected to occur on a regular basis. In arriving at this view, the Directors have taken into account regular requests by users of the financial statements, including analysts and shareholders, regarding the nature and quantum of one-off items within the GAAP-compliant results. The disclosure of non-GAAP financial information is also consistent with how information is reported internally to key management as it provides a more meaningful view of the underlying financial performance of the Group and a better understanding of how the Group is tracking after taking into account items of a one-off, non-recurring or unusual nature. A reconciliation between earnings per share reported and normalised and further commentary on the disclosure of non-GAAP financial information are included in the Annual Report.

CASH FLOWS

Net cash flows from operating activities are $11.7 million for the 2012/13 financial year which is a $3.6 million or 44% improvement on last year on the back of improved earnings and reduced interest and taxation payments.

During the year, there was $1.9 million spent on property, plant and equipment.

Dividends received from our 50% owned and equity accounted wool scouring operator amounted to $3.8 million, an improvement of 25% from last year.

Overall, the positive cash flows for the year allowed for a substantial reduction in Group borrowings.

SEGMENT REVIEWS

Carpet Business

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

Revenue for the year was $169 million, down 6% on the previous year.

The carpet segment result before restructuring costs was in line with last year at $6.4 million. For the first six months of the 2013 financial year, the carpet business suffered from the high carrying value of finished goods stock caused by the abnormal increase in the price of wool in the early part of 2012. This stock was finally sold out of inventory in the first six months of the 2012/13 year and the second half has seen the return of more reasonable margins due to lower stock values. This is in complete contrast to the 2012 year where the first six months was much stronger than the second, due again to the impact of high value wool-rich carpets in cost of sales in the latter part of that year.

Segment earnings as a percentage of revenue at 3.8% were on par with the 3.5% recorded in 2012.

New Zealand market

The New Zealand market was very sluggish in the first half of the year but conditions appear to be improving and in the last six months, there has been increased volumes sold with improved revenues.

The Christchurch rebuild will have an impact on the building sector and those companies associated with it, such as Cavalier, should benefit. There appears to be more confidence in the New Zealand economy, particularly with our agricultural exports and we expect this positive outlook to continue.

Australian market

Market conditions in Australia have been soft throughout the year for both residential and commercial carpets. The Australian economy appears to be struggling and the New Zealand dollar is increasing rapidly against the Australian equivalent, particularly in recent months, eroding Cavalier's New Zealand dollar returns.

We are not expecting to see any improvement in the operating conditions until the second half of the 2013/14 year.

Wool prices

Wool prices fell dramatically from the extraordinary peaks reached in December 2011 and for most of the 2012/13 year were at average historical levels.

In recent months, there has been a shortage of wool in the market caused by the drought in early 2013 when stock was sent to the works due to a shortage of feed. This has caused a rise in wool price. However, we do not expect to see those same conditions which caused the abnormal prices in late 2011 and believe values will normalise when shearing commences again later in the year.

Business improvement plans
Continuing on from the business improvement plans introduced in 2012 and implemented during the 2013 year, there have been additional initiatives undertaken which should further rationalise our cost base and simplify and grow the business.

During the 2013 year, we introduced the Habitat range of carpets, which is the first synthetic range sold under the Cavalier Bremworth stable of brands. While Cavalier Bremworth is still the premier wool carpet supplier in both New Zealand and Australia and we intend to grow and promote the virtues of wool offerings (leveraging off Cavalier Bremworth's heritage and brand equity), there has been a market shift to non-wool carpets, particularly in New Zealand, and Cavalier needed to respond with a premium offering. The Habitat range was launched in late March in New Zealand and July in Australia and we should see increased sales throughout 2014 as a result.

In 2013, the decision was made to simplify our brand offerings to avoid confusion and also to rationalise the number of SKUs of carpets we have in the market. Carpet ranges will now fall into two broad categories, the mid to high-end carpet sold under the Cavalier Bremworth banner (including the Habitat range) and the mid to lower-end carpet sold under the Norman Ellison brand. This will effectively eliminate the Knightsbridge and Kimberley ranges.

As indicated earlier, the decision has been made to consolidate all tufting operations at the one site in Papatoetoe resulting in a one-off restructuring cost of $4.1 million after tax. This will result in a significant reduction in operating costs for the broadloom carpet business going forward.

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
Trading conditions in 2013 were significantly better than those experienced in 2012.

Volumes in 2013 were higher than last year despite revenues falling by 15% which is a function of the higher wool prices prevailing throughout the 2012 year.

Due to the increased volume, operating profit has increased by 157% in 2013 which is a pleasing result from a well-managed business.

Wool scouring
CWH also enjoyed a very good year with Cavalier's share of the tax-paid earnings for the year ended 30 June 2013 of $5.0 million, a 52% increase on the $3.3 million delivered the previous year.

The price of wool grease, a by-product of the scouring process, remained high for most of the year and was a large contributor to the improved performance.

Yarn Business

Cavalier purchased the remaining 25% from the minorities in Radford Yarns (RYT) during the year while retaining the majority of the personnel within the existing business.

From what was a slow start to the year, volume increased significantly in the second half and the total volume produced was similar to the 2012 year. Approximately half of RYT production is still consumed by the Cavalier Bremworth broadloom carpet business and these exclusive yarns are those which we expect to grow for luxury markets offshore.

OUTLOOK

The results for the first six months of 2013 were depressed and mirrored the last half of 2012 as a result of extremely high stock values brought forward from the previous year flowing through costs of sales. The last half of the 2013 financial year was, however, stronger and results lifted accordingly.

We do not expect to experience the same extreme conditions again and with the restructuring already undertaken and in progress, we expect to be trading off a lower cost base and producing improved profits.

Looking forward to the 2013/14 financial year, we do not see any immediate upside in market conditions in Australia for carpets. For that to improve, we need to see a lift in the economy and real estate turnover.

There are more positive signals coming from the New Zealand economy especially with the Christchurch rebuild well and truly underway. We expect our volumes and profits to lift in line with increased domestic demand.

Wool prices have lifted in recent months. However, we do not anticipate prices to reach the abnormal heights experienced a couple of seasons ago. We expect conditions for our wool operations to be steady for the upcoming year.

There has been a considerable effort to reorganise and reshape the business in terms of cost base, product offerings and brand strategy, and we believe the Company is now well-positioned to lift future profitability. There are still uncertainties in the operating conditions for the Group and as such, it is too early in the year to be providing guidance for the 2013/14 financial year. We should be in a better position to do this at our annual shareholders' meeting in November 2013.

ACKNOWLEDGEMENTS

This year has been another challenging one for Cavalier and I take this opportunity to acknowledge the considerable effort made by staff during what has been not only a difficult year but also a period of unequalled change.

Colin McKenzie
Managing Director
16 September 2013

TRIBUTE TO TONY TIMPSON 1933-2013

Most, if not all, shareholders would be aware of the passing of founding shareholder, Tony Timpson, on 15 June 2013.

Tony, together with Grant Biel, co-founded the Cavalier Carpets broadloom carpet business in 1972. Under Tony's guidance, Cavalier Carpets experienced rapid growth, largely due to strong export sales, and went on to list on the NZ Stock Exchange in 1983 before acquiring Bremworth Carpets in 1988 to form Cavalier Bremworth as we know it today.

Supported to a large extent by the strength of Cavalier Bremworth, its commitment to outstanding customer service, its recognition for style and product leadership and the brand values that it stood for, Cavalier Corporation grew to now include businesses ranging from on-farm wool acquisition, wool scouring, yarn manufacturing and broadloom carpets and carpet tiles across both sides of the Tasman.

Throughout this growth phase, Tony was there, initially as Managing Director and Chief Executive Officer until August 1993 when he retired from his executive role to assume the role of Chairman of Cavalier Corporation. This was a position he held until April 2004 when he stepped down to become a non-executive director, before finally retiring from the Board in November 2009.

We acknowledge the contribution of Tony in shaping not only the Company, where the entrepreneurial spirit, energy and enthusiasm that Tony brought to the business is still alive and well and very much a part of our heritage, but also the New Zealand carpet industry and New Zealand business.

We have lost in Tony a true visionary and a leader with not only wit and humour, but also compassion and an intense interest in, and generosity towards, those who have had the privilege of working for, or being associated with, him.

On behalf of the Board of Directors, management and staff, I salute Tony for the foundations that he laid and the enormous contribution to the Company and its people over a long period of time.

Colin McKenzie
Managing Director and Chief Executive Officer
16 September 2013

CHARMEUSE –

*The 70 oz hardtwist cut pile carpet by **Cavalier Bremworth**, recreates the sensuousness of crushed velvet to provide a luxurious underfoot experience. Charmeuse is the heaviest weight cut pile carpet in the Cavalier Bremworth range, providing both durability and underfoot comfort.*

DIRECTORS' REPORT

YEAR ENDED 30 JUNE 2013

The tufting consolidation project, which was announced just before balance date, represents the last of the major business improvement initiatives. It will significantly reduce the tufting cost base, allowing us to be more competitive, especially in offshore markets. *– A M James*

On behalf of your Directors, I have pleasure in presenting our 2013 Annual Report, which incorporates the audited financial statements of the Company and its subsidiaries for the year ended 30 June 2013.

GROUP ACTIVITIES

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

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

The Group's broadloom carpets are marketed under two distinct brands, mid to high-end Cavalier Bremworth and mid to value-end Norman Ellison. The premium pure wool Bremworth Collection, the mid to high-end synthetic Habitat Collection and the Commercial Collection, which are linked to the Cavalier Bremworth brand, complete the broad range of offerings to the market.

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 including corporate, education, health care, 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 the Group'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 the Group's woollen carpet operations.

BUSINESS IMPROVEMENT INITIATIVES AND RESTRUCTURING

In response to the challenging trading conditions first encountered in the 2011/12 year, the Group developed a number of business improvement initiatives that were targeted at aligning manufacturing capacity at the Group's broadloom carpet manufacturing operations, reducing operating costs in the process.

Two of the more significant initiatives, the first relating to the closure of one of our three spinning mills and the second relating to the consolidation of our two Auckland-based warehousing and distribution operations, were completed during the year.

The Company stated at the November 2012 Annual Meeting of shareholders that it had further business improvement initiatives scheduled for implementation during the 2012/13 year to further improve operating efficiency and reposition the broadloom carpet business in terms of cost base, capacity, structure, product portfolio, channels and markets.

The tufting consolidation project, which was announced just before balance date, represents the last of the major business improvement initiatives. It will significantly reduce the tufting cost base, allowing us to be more competitive, especially in offshore markets.

FINANCIAL STATEMENTS

The financial statements for the year ended 30 June 2013 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 (before restructuring costs) for the year of $6,624,000 – compared with the normalised profit after tax achieved in the previous year of $4,283,000.

Business conditions in New Zealand have improved from those previously encountered and continue to improve in line with expectations. But the operating environment in Australia has remained very subdued. As a result, normalised tax-paid profit, while an improvement on the previous year, was still at the lower end of the $6 to $10 million normalised tax-paid range signalled at the 2012 Annual Meeting.

After providing for restructuring costs of $3,594,000 after tax (or $4,991,000 before tax), the Group had a reported tax-paid profit of $3,030,000.

	2013 $000	2012 $000
Revenue	**$201,739**	$217,198
Profit before tax from operations (normalised)	**2,074**	1,491
Share of profit of equity-accounted investee (tax-paid)	**5,013**	3,302
Income tax expense	**(463)**	(510)
Profit after tax from operations (normalised)	**6,624**	4,283
Restructuring costs (net of tax)	**(3,594)**	(5,916)
Profit/(Loss) after tax as reported	**$3,030**	$(1,633)

The Directors refer shareholders to the Managing Director's Review on pages 10 to 12 of the Annual Report for an in-depth analysis of the results.

Normalised return on average shareholders' equity for the year was 7.2%, compared with 4.5% the previous year, and normalised earnings per ordinary share was 9.7 cents, compared with 6.3 cents the previous year.

FINANCIAL POSITION

The equity attributable to shareholders of the Company increased by $3,063,000 during the year to $93,918,000 as follows:

	$000
Shareholders' equity at 30 June 2012 was	90,855
to which was added:	
Profit after tax	3,030
Changes in amounts payable to non-controlling interests	320
Movement in the share rights reserve	19
Movement in the cash flow hedging reserve	1,679
from which was deducted:	
Movement in the foreign currency translation reserve	(1,985)
Shareholders' equity at 30 June 2013 of	**$93,918**

Total assets decreased by $4.8 million during the year as a result of the continuing restraint on discretionary spending and control on working capital, particularly inventories.

Shareholders' equity accounted for 47.8% of total assets employed at balance date, compared with 45.1% a year ago. Net interest-bearing debt : equity ratio stood at 36 : 64, compared with 42 : 58 a year ago.

DIVIDENDS

Your Directors have authorised a fully imputed final dividend for the year ended 30 June 2013 of 4 cents per share.

This final dividend will be paid on Friday, 18 October 2013. The share register will close at 5 p.m. on Friday, 4 October 2013 for the purpose of determining entitlement to the dividend and will reopen on Monday, 7 October 2013.

Non-resident shareholders will also receive, together with their 2013 final dividend, a supplementary dividend of 0.7059 cent per share. The dates for the determination of entitlement to, and the payment of, this supplementary dividend are the same as those for the 2013 final dividend.

The Cavalier Corporation Limited Dividend Reinvestment Plan which allows shareholders to receive shares in the Company in lieu of dividends will apply to the final dividend.

The Directors advise that the price for determining the number of shares to be issued in lieu of this dividend will be the volume weighted average sale price of all price-setting trades on the NZX over the five trading days from Monday, 7 October 2013 to Friday, 11 October 2013 without any discount.

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.

Your Directors to retire at the Annual Meeting to be held on 19 November 2013 are Mr Grant Biel and Mr Graeme Hawkins. Mr Biel was last re-elected to the Board in November 2009 and Mr Hawkins in November 2010.

Mr Biel and Mr Hawkins, who are eligible for re-election to the Board, will be offering themselves for re-election at the Annual Meeting.

AUDITORS

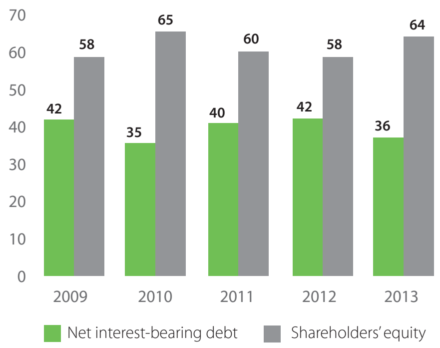
KPMG have indicated their willingness to continue in office in accordance with section 200 of the Companies Act 1993 ("the Act"). A resolution authorising your Directors to fix the remuneration of the auditors will be put to shareholders at the 2013 Annual Meeting.

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 $18,000.

Your Directors note that taxation compliance assignments 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.

Net interest-bearing debt : equity ratio



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 98 to 101 of the Annual Report.

OTHER STATUTORY DISCLOSURES

The other statutory disclosures required of the Company under the Act are set out on pages 102 and 103 of the Annual Report.

MANAGEMENT AND STAFF

On behalf of your Directors, I take this opportunity to publicly acknowledge the contributions of our Managing Director and Chief Executive Officer, Mr Colin McKenzie, the rest of the management team and all our staff throughout what has been another challenging year and to thank them for their efforts.

Alan James
Chairman
16 September 2013

BOARD OF DIRECTORS


Alan James


Grant Biel


Graeme Hawkins


Sarah Haydon


Colin McKenzie


Keith Thorpe

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

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

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 Association

C A (Colin) McKenzie

MInstD, 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

CORPORATE GOVERNANCE STATEMENT

YEAR ENDED 30 JUNE 2013

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 2013, 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, Mrs S E F Haydon, Mr A M James and Mr K L Thorpe are independent Directors of the Company. Mr G C W Biel is not an independent Director because he is an associate of a substantial security holder in the Company. Mr C A McKenzie is not an independent Director because he currently holds the positions of Managing Director and Chief Executive Officer of the Company.

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

The profile of the Directors can be found on page 18.

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.

The attendance record of the Directors at the 10 Board meetings held during the year ended 30 June 2013 is as follows:

	Attendance record
G C W Biel	10/10
G S Hawkins	10/10
S E F Haydon – appointed 14 August 2012	9/9
A M James	10/10
C A McKenzie	10/10
K L Thorpe	10/10
W K Chung – retired 16 November 2012	4 /4

CHARLTON & BOSTON – *Two hard twist cut pile carpets, CHARLTON, a solution dyed nylon, and BOSTON, a 100% wool, from the* ***Norman Ellison Carpets*** *range of products aimed at the mid to value-end of the market in New Zealand and Australia.*

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 2013 was $314,456.

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

The remuneration of the Directors can be found on page 101.

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 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 2013 were Mr G S Hawkins (Chairman), Mr G C W Biel, Mrs S E F Haydon, Mr A M James and Mr K L Thorpe. Mr G S Hawkins has a background in accounting and is a member of the New Zealand Institute of Chartered Accountants. Mrs S E F Haydon also has a background in accounting having previously held senior finance roles in a number of companies, including 10 years as Chief Financial Officer of OfficeMax New Zealand. Mrs Haydon is a member of the Institute of Chartered Accountants of England and Wales.

The attendance record of the members of the Audit Committee at the two Audit Committee meetings held during the year ended 30 June 2013 is as follows:

	Attendance record
G C W Biel *(non-independent Director)*	2/2
G S Hawkins *(independent Director)*	2/2
S E F Haydon *(independent Director)* *– appointed 14 August 2012*	2/2
A M James *(independent Director)*	2/2
K L Thorpe *(independent Director)*	2/2
W K Chung *(non-independent Director)* *– retired 16 November 2012*	1/1

TEXTONE –
*The 36 oz loop pile carpet, from the **Habitat Collection**, Cavalier Bremworth's exclusive collection of synthetic residential carpets. Featuring a mix of stippled and plain yarns in its colour line-up, Textone joins Cavalier Bremworth's newly launched range of solution dyed nylon STAINMASTER® SolarMax® carpets that utilises specially engineered fibres that repel and lock out stains while providing outstanding colour protection.*

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

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

The members of the Remuneration Committee as at 30 June 2013 were Mr A M James (Chairman), Mr G C W Biel, Mrs S E F Haydon, Mr G S Hawkins and Mr K L Thorpe.

All the members of the Remuneration Committee were present at the one Remuneration Committee meeting held during the year ended 30 June 2013.

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

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 for director appointments and for 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 OF SHAREHOLDERS

Time and date	10 a.m., Tuesday, 19 November 2013
Venue	Ellerslie Event Centre, 80 – 100 Ascot Avenue, Greenlane, Auckland

CORPORATE CALENDAR

19 November 2013	2013 Annual Meeting of shareholders
31 December 2013	End of 2014 half year
Late February 2014	Announcement of 2014 half year result
Mid-March 2014	Release of 2014 half year report
30 June 2014	End of 2014 financial year
Late August 2014	Announcement of 2014 annual result
September 2014[1]	Period for nomination of directors to the Board
End of September 2014	Release of 2014 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 107 and 108 of the Annual Report).

Shareholders can also view the details relating to their holdings, including transactions and payments history, change their addresses and update their payment instructions online by 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 2013

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

DIRECTORS' RESPONSIBILITY STATEMENT

CAVALIER
CORPORATION

DIRECTORS' RESPONSIBILITIES

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

ACCOUNTING POLICIES

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

ACCOUNTING RECORDS

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

SAFEGUARDING OF ASSETS AND INTERNAL CONTROLS

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

FINANCIAL STATEMENTS

The Directors are pleased to present, on pages 26 to 91, the financial statements of the Company and Group for the year ended 30 June 2013.

These financial statements were authorised for issue by the Directors on 16 August 2013 and, as required by section 211(1)(b) of the Companies Act 1993 and sections 10 and 13 of the Financial Reporting Act 1993, are signed and dated as at that date.

For and on behalf of the Directors:

A M James
Chairman

C A McKenzie
Managing Director

INDEPENDENT AUDITOR'S REPORT

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 26 to 91. The financial statements comprise the statements of financial position as at 30 June 2013, 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 taxation services to the Company and Group. 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 26 to 91:

- 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 2013 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

16 August 2013
Auckland

INCOME STATEMENT

For the year ended 30 June 2013

	Note	GROUP 2013 $000	GROUP 2012 $000	COMPANY 2013 $000	COMPANY 2012 $000
Revenue	3	**201,739**	217,198	**2,400**	4,500
Cost of sales		**(150,108)**	(160,995)	**-**	-
Gross profit		**51,631**	56,203	**2,400**	4,500
Other income and gains/losses	4	**16**	45	**-**	7,689
Distribution expenses		**(33,827)**	(36,669)	**-**	-
Administration expenses	5	**(12,298)**	(14,039)	**(2,209)**	(4,175)
Restructuring costs	27	**(4,991)**	(8,218)	**-**	-
Reversal of impairment of trademark	10	**292**	-	**-**	-
Results from operating activities		**823**	(2,678)	**191**	8,014
Finance income	7	**-**	-	**-**	-
Finance expenses	7	**(3,740)**	(4,049)	**-**	-
Net finance costs		**(3,740)**	(4,049)	**-**	-
Share of profit of equity-accounted investee (net of income tax)	11	**5,013**	3,302	**-**	-
Profit/(Loss) before income tax		**2,096**	(3,425)	**191**	8,014
Income tax (expense)/benefit	8	**934**	1,792	**(60)**	(118)
Profit/(Loss) after tax for the period		**$3,030**	$(1,633)	**$131**	$7,896
Profit/(Loss) after tax attributable to:					
Shareholders of Cavalier Corporation Limited		**3,030**	(1,633)		
Non-controlling interests		**-**	-		
Profit/(Loss) after tax for the period		**$3,030**	$(1,633)		
Basic and diluted earnings per share (cents)	16	**4.4**	(2.4)		

This statement is to be read in conjunction with the notes on pages 33 to 91.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2013

		GROUP		COMPANY	
	Note	2013 $000	2012 $000	2013 $000	2012 $000
Profit/(Loss) after tax for the period		**3,030**	(1,633)	**131**	7,896
Other comprehensive income that may be reclassified subsequently to profit or loss					
Effective portion of changes in fair value of cash flow hedges		**2,364**	(139)	**-**	-
Net change in fair value of cash flow hedges transferred to profit or loss		**(32)**	(292)	**-**	-
Foreign currency translation differences for foreign operations		**(1,985)**	(378)	**-**	-
Income tax on other comprehensive income	8, 12	**(653)**	116	**-**	-
		(306)	(693)	**-**	-
Other comprehensive income not reclassified subsequently to profit or loss					
Changes in amounts payable to non-controlling interests	19	**320**	1,300	**-**	-
Other comprehensive income for the period, net of income tax		**14**	607	**-**	-
Total comprehensive income for the period		**$3,044**	$(1,026)	**$131**	$7,896
Total comprehensive income attributable to:					
Shareholders of Cavalier Corporation Limited		**3,044**	(1,026)	**131**	7,896
Non-controlling interests		**-**	-	**-**	-
Total comprehensive income for the period		**$3,044**	$(1,026)	**$131**	$7,896

This statement is to be read in conjunction with the notes on pages 33 to 91.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2013

		GROUP					
	Note	Share Capital $000	Cash Flow Hedging Reserve $000	Foreign Currency Translation Reserve $000	Share Rights Reserve $000	Retained Earnings $000	Total Equity $000
Total equity at 1 July 2012		$21,157	$(685)	$2,354	$1,429	$66,600	$90,855
Total comprehensive income for the period							
Profit/(Loss) after tax		-	-	-	-	3,030	3,030
Other comprehensive income that may be reclassified subsequently to profit or loss							
Changes in fair value of cash flow hedges (net of tax)		-	1,679	-	-	-	1,679
Foreign currency translation differences for foreign operations		-	-	(1,985)	-	-	(1,985)
		-	1,679	(1,985)	-	-	(306)
Other comprehensive income not reclassified subsequently to profit or loss							
Changes in amounts payable to non-controlling interests	19	-	-	-	-	320	320
Total other comprehensive income		-	1,679	(1,985)	-	320	14
Total comprehensive income for the period		-	1,679	(1,985)	-	3,350	3,044
Transactions with owners, recorded directly in equity							
Dividends paid to equity holders of the Company	17	-	-	-	-	-	-
Equity-settled share-based payments	18, 31	-	-	-	19	-	19
Total equity at 30 June 2013		$21,157	$994	$369	$1,448	$69,950	$93,918

This statement is to be read in conjunction with the notes on pages 33 to 91.

STATEMENT OF CHANGES IN EQUITY (continued)

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		-	-	-	-	(1,633)	(1,633)
Other comprehensive income that may be reclassified subsequently to profit or loss							
Changes in fair value of cash flow hedges (net of tax)		-	(315)	-	-	-	(315)
Foreign currency translation differences for foreign operations		-	-	(378)	-	-	(378)
		-	(315)	(378)	-	-	(693)
Other comprehensive income not reclassified subsequently to profit or loss							
Changes in amounts payable to non-controlling interests	19	-	-	-	-	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	17	-	-	-	-	(7,509)	(7,509)
Equity-settled share-based payments	18, 31	-	-	-	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 33 to 91.

STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 30 June 2013

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

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		–	–	7,896	7,896
Other comprehensive income		–	–	–	–
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	17	–	–	(7,509)	(7,509)
Equity-settled share-based payments	18, 31	–	96	–	96
Total equity at 30 June 2012		$21,157	$1,429	$10,542	$33,128

This statement is to be read in conjunction with the notes on pages 33 to 91.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2013

		GROUP		COMPANY	
	Note	2013 $000	2012 $000	2013 $000	2012 $000
ASSETS					
Property, plant and equipment	9	**68,932**	75,080	**–**	–
Intangible assets	10	**7,794**	7,502	**–**	–
Investments in subsidiaries		**–**	–	**34,839**	34,309
Investment in equity-accounted investee	11	**23,856**	22,593	**–**	–
Deferred tax asset	12	**2,797**	1,998	**166**	619
Total non-current assets		**103,379**	107,173	**35,005**	34,928
Cash and cash equivalents	13	**5,932**	2,029	**3**	2
Advances to subsidiaries	31	**–**	–	**2,934**	2,734
Trade receivables, other receivables and prepayments	14	**27,650**	29,135	**–**	–
Inventories	15	**56,965**	62,901	**–**	–
Derivative financial instruments	25	**2,518**	97	**–**	–
Tax receivable		**193**	99	**172**	55
Total current assets		**93,258**	94,261	**3,109**	2,791
Total assets		**$196,637**	$201,434	**$38,114**	$37,719
EQUITY					
Share capital	17	**21,157**	21,157	**21,157**	21,157
Cash flow hedging reserve	17	**994**	(685)	**–**	–
Foreign currency translation reserve	17	**369**	2,354	**–**	–
Share rights reserve	17, 18	**1,448**	1,429	**1,448**	1,429
Retained earnings		**69,950**	66,600	**10,673**	10,542
Total equity		**93,918**	90,855	**33,278**	33,128
LIABILITIES					
Loans and borrowings	20	**58,896**	68,503	**–**	–
Employee benefits	21	**2,444**	2,996	**486**	1,665
Amounts payable to non-controlling interests	19	**–**	850	**–**	–
Deferred income	22	**291**	364	**–**	–
Provisions	23	**4,226**	1,381	**–**	–
Total non-current liabilities		**65,857**	74,094	**486**	1,665
Bank overdraft	13	**234**	79	**–**	–
Loans and borrowings	20, 31	**86**	93	**–**	–
Advances from subsidiaries	31	**–**	–	**4,176**	2,305
Trade creditors and accruals	24	**26,281**	23,199	**67**	66
Provisions	23	**3,416**	5,631	**–**	–
Employee entitlements		**6,090**	6,159	**107**	555
Amounts payable to non-controlling interests	19	**210**	210	**–**	–
Deferred income	22	**68**	70	**–**	–
Derivative financial instruments	25	**477**	1,044	**–**	–
Total current liabilities		**36,862**	36,485	**4,350**	2,926
Total liabilities		**102,719**	110,579	**4,836**	4,591
Total equity and liabilities		**$196,637**	$201,434	**$38,114**	$37,719

This statement is to be read in conjunction with the notes on pages 33 to 91.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2013

	Note	GROUP 2013 $000	GROUP 2012 $000	COMPANY 2013 $000	COMPANY 2012 $000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from customers		**204,126**	218,221	**–**	–
Cash paid to suppliers and employees		**(188,525)**	(204,180)	**(3,816)**	(4,562)
		15,601	14,041	**(3,816)**	(4,562)
Dividends received		**3**	3	**–**	7,689
Other receipts		**22**	22	**2,400**	4,500
GST refunded		**384**	202	**–**	–
Interest paid		**(3,575)**	(4,174)	**–**	–
Income tax (paid)/refunded		**(759)**	(2,001)	**276**	(102)
Net cash flow from operating activities	26	**11,676**	8,093	**(1,140)**	7,525
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		**123**	64	**–**	–
Proceeds from sale of plant and equipment held for sale		**–**	126	**–**	–
Acquisition of property, plant and equipment	9	**(1,907)**	(2,457)	**–**	–
Contingent purchase consideration of non-controlling interests	19, 31	**(530)**	(1,753)	**(530)**	(1,519)
Dividends received from equity-accounted investee	11	**3,750**	3,000	**–**	–
Net cash flow from investing activities		**1,436**	(1,020)	**(530)**	(1,519)
CASH FLOWS FROM FINANCING ACTIVITIES					
Movements in other borrowings	20, 31	**(7)**	(1,346)	**–**	–
ANZ loans drawn down pre-refinancing		**–**	6,084	**–**	–
BNZ loans drawn down at refinancing		**–**	72,486	**–**	–
ANZ loans repaid at refinancing		**–**	(72,156)	**–**	–
BNZ loans repaid post refinancing		**(9,262)**	(3,983)	**–**	–
Advances from subsidiaries	31	**–**	–	**1,671**	1,502
Dividends paid to equity holders of the Company	17	**–**	(7,509)	**–**	(7,509)
Net cash flow from financing activities		**(9,269)**	(6,424)	**1,671**	(6,007)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**3,843**	649	**1**	(1)
Cash and cash equivalents at beginning of the period		**1,950**	1,302	**2**	3
Effect of exchange rate changes on cash		**(95)**	(1)	**–**	–
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	13	**$5,698**	$1,950	**$3**	$2

This statement is to be read in conjunction with the notes on pages 33 to 91.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2013

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 Group subsidiaries are wholly-owned except for Ontera Modular Carpets Pty Limited which was 96.75% owned.

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

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

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

The financial statements contained in this annual report were approved for issue by the Board of Directors of the Company on 16 August 2013.

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 2013.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

(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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 investees, the goodwill is included in the carrying amount of the investment and not tested separately for impairment, but is considered as part of the assessment of the carrying value of the investment.

(j) Trademarks

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

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

(k) Research and development

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

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

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

(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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Non-controlling interests

Pursuant to NZ IAS 32 *Financial Instruments: Disclosure and Presentation*, the Group recognises the put options that maybe 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. REVENUE

	Note	GROUP 2013 $000	GROUP 2012 $000	COMPANY 2013 $000	COMPANY 2012 $00
Sales of goods		**201,739**	217,198	**–**	–
Provision of services	31	**–**	–	**2,400**	4,500
Total revenue		**$201,739**	$217,198	**$2,400**	$4,500

4. OTHER INCOME AND GAINS/LOSSES

	Note	GROUP 2013 $000	GROUP 2012 $000	COMPANY 2013 $000	COMPANY 2012 $00
Rentals received		**22**	22	**–**	–
Dividends received	31	**3**	3	**–**	7,689
Net loss on sale of property, plant and equipment		**(9)**	(86)	**–**	–
Net gain on sale of plant and equipment held for sale		**–**	106	**–**	–
Total other income and gains/losses		**$16**	$45	**–**	$7,689

5. ADMINISTRATION EXPENSES

The following items of expenditure are included in administration expenses:

	Note	GROUP 2013 $000	GROUP 2012 $000	COMPANY 2013 $000	COMPANY 2012 $00
Donations		**5**	12	**–**	–
Fees paid to KPMG, the auditor, for:					
– audit of annual financial statements		**181**	166	**15**	13
– other audit-related services		**12**	22	**–**	2
– non audit-related services		**18**	19	**–**	–
Total fees paid to KPMG		**$211**	$207	**$15**	$15
Fees paid to other auditors of subsidiaries		**$12**	$44	**–**	–

Other audit-related services include the review of the interim financial statements. Non audit-related services were in respect of tax compliance assignments.

6. PERSONNEL EXPENSES

	Note	GROUP 2013 $000	GROUP 2012 $000	COMPANY 2013 $000	COMPANY 2012 $00
Directors' fees		**314**	293	**314**	293
Wages, salaries, bonuses and holiday pay		**50,005**	53,633	**1,392**	2,913
Employee termination benefits		**1,273**	3,740	**–**	–
Employee benefits		**5,446**	5,436	**123**	366
Increase/(Decrease) in liability for retiring allowances and long service leave		**(302)**	8	**(240)**	81
Equity-settled share-based payments	18	**19**	96	**19**	96
Total personnel expenses		**$56,755**	$63,206	**$1,608**	$3,749

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.

7. FINANCE INCOME AND EXPENSES

	Note	GROUP 2013 $000	GROUP 2012 $000	COMPANY 2013 $000	COMPANY 2012 $00
Finance income		**–**	–	**–**	–
Finance expenses		**(3,740)**	(4,049)	**–**	–
Net finance costs		**$(3,740)**	$(4,049)	**–**	–

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

8. INCOME TAX

	Note	GROUP		COMPANY	
		2013 $000	2012 $000	**2013 $000**	2012 $000
INCOME TAX EXPENSE/BENEFIT IN THE INCOME STATEMENT					
Current tax expense/(benefit)					
Current period		**639**	(28)	**(172)**	(17)
Adjustment for prior periods		**8**	(11)	**–**	–
		647	(39)	**(172)**	(17)
Deferred tax expense/(benefit)					
Origination and reversal of temporary differences		**(1,618)**	(1,748)	**232**	135
Adjustment for prior periods		**37**	(5)	**–**	–
	12	**(1,581)**	(1,753)	**232**	135
Income tax expense/(benefit)		**$(934)**	$(1,792)	**$60**	$118
RECONCILIATION OF EFFECTIVE TAX RATE					
Profit/(Loss) for the period		**3,030**	(1,633)	**131**	7,896
Total income tax expense/(benefit)		**(934)**	(1,792)	**60**	118
Profit/(Loss) excluding income tax		**$2,096**	$(3,425)	**$191**	$8,014
Income tax using the Company's domestic tax rate of 28% (2012: 28%)		**587**	(959)	**53**	2,244
Share of equity-accounted investee's tax paid (profit)/loss		**(1,404)**	(925)	**–**	–
Non-deductible expenses		**49**	69	**7**	27
Tax exempt income		**(241)**	–	**–**	(2,153)
Effect of tax rate difference in foreign jurisdiction		**33**	39	**–**	–
Under/(Over) provided in prior periods		**42**	(16)	**–**	–
Income tax expense/(benefit)		**$(934)**	$(1,792)	**$60**	$118

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. INCOME TAX (continued)

	Note	GROUP 2013 $000	GROUP 2012 $000	COMPANY 2013 $000	COMPANY 2012 $000
INCOME TAX RECOGNISED DIRECTLY IN EQUITY					
Derivative financial instruments		**(653)**	116	**–**	–
Income tax on income and expense recognised directly in equity	12	**$(653)**	$116	**–**	–
IMPUTATION CREDITS					
Imputation credits at 1 July		**5,262**	6,498		
New Zealand net income tax payments/(refunds)		**(145)**	740		
Imputation credits attached to dividends received		**1,496**	1,286		
Imputation credits attached to dividends paid		**–**	(3,262)		
Imputation credits at 30 June		**$6,613**	$5,262		
Imputation credits available to shareholders of the Company:					
Through the Company's consolidated tax group		**4,657**	3,274		
Through subsidiaries		**1,956**	1,988		
		$6,613	$5,262		

9. PROPERTY, PLANT AND EQUIPMENT

	2013 $000	2012 $000
CARRYING AMOUNTS		
Property, plant and equipment	**71,523**	78,243
Government grants deferred	**(2,591)**	(3,163)
Net carrying amount	**$68,932**	$75,080

9. PROPERTY, PLANT AND EQUIPMENT (continued)

	GROUP				
	Land and buildings $000	Plant and equipment $000	Other assets $000	Under construction $000	Total $000
COST OR DEEMED COST					
Balance at 1 July 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
Balance at 1 July 2012	**31,758**	**93,323**	**19,537**	**999**	**145,617**
Additions	**14**	**103**	**223**	**1,567**	**1,907**
Disposals	**–**	**(694)**	**(76)**	**(46)**	**(816)**
Transfers	**3**	**1,200**	**–**	**(1,203)**	**–**
Effect of movements in exchange rates	**(582)**	**(1,473)**	**(328)**	**(72)**	**(2,455)**
Balance at 30 June 2013	**$31,193**	**$92,459**	**$19,356**	**$1,245**	**$144,253**
DEPRECIATION AND IMPAIRMENT LOSSES					
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 provided	–	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
Balance at 1 July 2012	**1,399**	**50,460**	**15,515**	**–**	**67,374**
Depreciation for the year	**239**	**5,027**	**1,062**	**–**	**6,328**
Prior period impairment losses reversed	**–**	**(12)**	**–**	**–**	**(12)**
Impairment losses provided	**–**	**572**	**–**	**–**	**572**
Disposals	**–**	**(613)**	**(71)**	**–**	**(684)**
Effect of movements in exchange rates	**–**	**(607)**	**(241)**	**–**	**(848)**
Balance at 30 June 2013	**$1,638**	**$54,827**	**$16,265**	**–**	**$72,730**
CARRYING AMOUNTS					
At 30 June 2012	$30,359	$42,863	$4,022	$999	$78,243
At 30 June 2013	**$29,555**	**$37,632**	**$3,091**	**$1,245**	**$71,523**

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. PROPERTY, PLANT AND EQUIPMENT (continued)

Impairment loss

Impairment losses in respect of property, plant and equipment of $572,000 were recognised during the year (2012: $694,000). At the same time, prior period impairment losses of $12,000 were reversed to reflect the enhanced value in use of the underlying assets (2012: 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 20).

Property, plant and equipment under construction

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

Because of the short time taken to complete these projects, no interest was capitalised during the year (2012: 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	
	2013 $000	2012 $000
Balance at 1 July	**3,163**	3,589
Released to income	**(351)**	(380)
Effect of movements in exchange rates	**(221)**	(46)
Balance at 30 June	**$2,591**	$3,163

10. INTANGIBLE ASSETS

	GROUP		
	Goodwill $000	Trademarks $000	Total $000
COST			
Balance at 1 July 2011	6,067	2,192	8,259
Balance at 30 June 2012	$6,067	$2,192	$8,259
Balance at 1 July 2012	**6,067**	**2,192**	**8,259**
Balance at 30 June 2013	**$6,067**	**$2,192**	**$8,259**
AMORTISATION AND IMPAIRMENT LOSSES			
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
Balance at 1 July 2012	**–**	**757**	**757**
Amortisation for the year	**–**	**–**	**–**
Reversal of prior period impairment losses	**–**	**(292)**	**(292)**
Impairment loss	**–**	**–**	**–**
Balance at 30 June 2013	**–**	**$465**	**$465**
CARRYING AMOUNTS			
At 30 June 2012	$6,067	$1,435	$7,502
At 30 June 2013	**$6,067**	**$1,727**	**$7,794**

Goodwill recognised on acquisition of subsidiary

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

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

Trademarks recognised on acquisition of subsidiary

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. INTANGIBLE ASSETS (continued)

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

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

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

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

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

Goodwill

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

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

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

10. 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 $4,400,000 in the case of Norman Ellison Carpets Limited), there is significant headroom between the recoverable amount and the carrying value of the cash-generating units to avoid goodwill impairment.

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 focus of the Norman Ellison Carpets trademark – with a move towards giving total emphasis to the Norman Ellison Carpets brand while phasing out the use of the Knightsbridge and Kimberley brands in New Zealand and Australia respectively – there has been a write up in the carrying value of the Norman Ellison Carpets trademark to reflect the enhanced value in use (2012: write up in the carrying value of the Norman Ellison Carpets trademark offset by a write down in the carrying value of the Georgia Collection trademark).

11. EQUITY-ACCOUNTED INVESTEE

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

	GROUP	
	2013 $000	2012 $000
Balance at 1 July	**22,593**	22,291
Share of tax-paid profit	**5,013**	3,302
Dividends received	**(3,750)**	(3,000)
Balance at 30 June	**$23,856**	$22,593
Amount of goodwill in carrying value of equity-accounted investee:		
Balance at 1 July	**–**	–
Balance at 30 June	**–**	–

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. EQUITY-ACCOUNTED INVESTEE (continued)

Summary financial information for equity-accounted investee, unadjusted 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
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
2013 Cavalier Wool Holdings Limited – year ended 30 June 2013	**50%**	**9,597**	**62,156**	**71,753**	**4,797**	**21,276**	**26,073**	**44,354**	**(30,331)**	**14,023**	**(3,997)**	**10,026**

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 (2012: $72,000).

Dividends of $3,750,000 were received from CWH during the year (2012: $3,000,000). The Group notes that the dividend policy of CWH is to maximise dividend payments and on optimal terms to the shareholders provided that such payments are consistent with good business practice, the solvency and financial position of the company, the funding requirements of the company and comply with the law generally and, in particular, the responsibilities and duties of the directors.

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 $559,000 (2012: $845,000). At balance date, these operations owed CWH $50,000 (inclusive of GST) in respect of invoices for services provided in June 2013, but which were not due for payment at balance date (2012: $56,000).

CWH owed the Group $91,000 (inclusive of GST) being rebates in respect of scouring services and wool storage provided in June 2013 (2012: $115,000 in respect of scouring services and wool storage and $50,000 in respect of expenses paid on its behalf) at balance date. All these amounts were paid in full after balance date.

12. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	GROUP					
	Assets		Liabilities		Net	
	2013 $000	2012 $000	2013 $000	2012 $000	2013 $000	2012 $000
Property, plant and equipment	**923**	1,125	**(5,161)**	(5,749)	**(4,238)**	(4,624)
Derivatives	**–**	12	**(32)**	–	**(32)**	12
Inventories	**1,018**	1,504	**(12)**	(22)	**1,006**	1,482
Loans and borrowings	**110**	42	**–**	–	**110**	42
Employee benefits	**1,403**	1,633	**–**	–	**1,403**	1,633
Provisions	**3,142**	2,705	**–**	–	**3,142**	2,705
Tax loss carry-forwards	**1,490**	983	**–**	–	**1,490**	983
Other items	**43**	13	**(127)**	(248)	**(84)**	(235)
Net tax assets/(liabilities)	**$8,129**	$8,017	**$(5,332)**	$(6,019)	**$2,797**	$1,998

	COMPANY					
	Assets		Liabilities		Net	
	2013 $000	2012 $000	2013 $000	2012 $000	2013 $000	2012 $000
Employee benefits	**136**	466	**–**	–	**136**	466
Provisions	**30**	153	**–**	–	**30**	153
Net tax assets/(liabilities)	**$166**	$619	**–**	–	**$166**	$619

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. DEFERRED TAX ASSETS AND LIABILITIES (continued)

Movement in temporary differences during the year:

GROUP	Balance 1 July 2011 $000	Recognised in profit or loss $000	Recognised in equity $000	Effect of exchange rate change $000	Balance 30 June 2012 $000	Recognised in profit or loss $000	Recognised in equity $000	Effect of exchange rate change $000	Balance 30 June 2013 $000
Property, plant and equipment	(4,636)	30	–	(18)	**(4,624)**	**462**	**–**	**(76)**	**(4,238)**
Held for sale assets	8	(8)	–	–	**–**	**–**	**–**	**–**	**–**
Derivatives	23	(127)	116	–	**12**	**610**	**(653)**	**(1)**	**(32)**
Inventories	1,453	31	–	(2)	**1,482**	**(469)**	**–**	**(7)**	**1,006**
Loans and borrowings	29	13	–	–	**42**	**68**	**–**	**–**	**110**
Employee benefits	1,819	(178)	–	(8)	**1,633**	**(178)**	**–**	**(52)**	**1,403**
Provisions	1,529	1,177	–	(1)	**2,705**	**442**	**–**	**(5)**	**3,142**
Tax loss carry-forwards	–	983	–	–	**983**	**507**	**–**	**–**	**1,490**
Other items	(67)	(168)	–	–	**(235)**	**139**	**–**	**12**	**(84)**
Total	$158	$1,753	$116	$(29)	**$1,998**	**$1,581**	**$(653)**	**$(129)**	**$2,797**

COMPANY	Balance 1 July 2011 $000	Recognised in profit or loss $000	Recognised in equity $000	Effect of exchange rate change $000	Balance 30 June 2012 $000	Recognised in profit or loss $000	Recognised in equity $000	Transfer $000	Effect of exchange rate change $000	Balance 30 June 2013 $000
Employee benefits	553	(87)	–	–	**466**	**(166)**	**–**	**(164)**	**–**	**136**
Provisions	201	(48)	–	–	**153**	**(66)**	**–**	**(57)**	**–**	**30**
Total	$754	$(135)	–	–	**$619**	**$(232)**	**–**	**$(221)**	**–**	**$166**

13. CASH AND CASH EQUIVALENTS

	GROUP		COMPANY	
	2013 $000	2012 $000	**2013 $000**	2012 $000
Cash and cash equivalents at bank	**5,932**	2,029	**3**	2
Bank overdrafts used for cash management purposes	**(234)**	(79)	**–**	–
Cash and cash equivalents in the statement of cash flows	**$5,698**	$1,950	**$3**	$2

14. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

Trade receivables due from trade customers	**25,652**	27,840	**–**	–
Other receivables	**1,424**	372	**–**	–
Prepayments	**574**	923	**–**	–
	$27,650	$29,135	**–**	–

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

15. INVENTORIES

	GROUP	
	2013 $000	2012 $000
Raw materials and consumables	**22,115**	18,316
Work in progress	**1,522**	2,560
Finished goods	**33,328**	42,025
	$56,965	$62,901
Inventories stated at net realisable value	**$2,367**	$2,249
Carrying amount of inventories subject to retention of title clauses	**$1,126**	$2,624

In 2013, the net realisable value provision in respect of inventories increased by $447,000 (2012: $364,000). The increase in this provision is included in cost of sales.

16. EARNINGS PER SHARE

Basic and diluted earnings per share

	GROUP	
	2013 Cents	2012 Cents
Basic earnings per share	**4.4**	(2.4)
Diluted earnings per share	**4.4**	(2.4)

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. EARNINGS PER SHARE (continued)

Basic earnings per share

The calculation of basic earnings per share at 30 June 2013 is based on the profit attributable to ordinary shareholders of $3,030,000 (2012: loss of $1,633,000) and a weighted average number of ordinary shares outstanding of 68,263,857 (2012: 68,263,857), calculated as follows:

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

	GROUP	
	2013 $000	2012 $000
Profit/(Loss) after tax for the year	**3,030**	(1,633)
Profit/(Loss) attributable to non-controlling interests	**–**	–
Profit/(Loss) attributable to ordinary shareholders	**$3,030**	$(1,633)

Weighted average number of ordinary shares (basic)

	COMPANY	
	2013 000	2012 000
Issued ordinary shares at 1 July	**68,263.9**	68,263.9
Effect of shares issued during the year	–	–
Weighted average number of ordinary shares at 30 June	**68,263.9**	68,263.9

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2013 is based on the profit attributable to ordinary shareholders of $3,030,000 (2012: loss of $1,633,000) and a weighted average number of ordinary shares outstanding, after adjustment for the effects of all dilutive potential ordinary shares, of 68,263,857 (2012: 68,263,857), calculated as follows:

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

	GROUP	
	2013 $000	2012 $000
Profit/(Loss) after tax for the year	**3,030**	(1,633)
Profit/(Loss) attributable to non-controlling interests	**–**	–
Profit/(Loss) attributable to ordinary shareholders	**$3,030**	$(1,633)

16. EARNINGS PER SHARE (continued)

Weighted average number of ordinary shares (diluted)

	COMPANY	
	2013 000	2012 000
Issued ordinary shares at 1 July	**68,263.9**	68,263.9
Effect of shares issued during the year	**–**	–
Weighted average number of ordinary shares (diluted) at 30 June	**68,263.9**	68,263.9

On the basis of various estimated adjusted base prices set out in the table in note 18 on the Cavalier Corporation Limited Executive Share Rights Plan, and assuming that the market price of the Company's shares at 30 June 2013 of $1.70 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.

17. CAPITAL AND RESERVES

Share capital

	COMPANY	
	2013 000	2012 000
Ordinary shares		
Number on issue at 1 July	**68,263.9**	68,263.9
Shares issued during the year	**–**	-
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 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 18.

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. 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 did not pay any dividend in the year ended 30 June 2013 as per the summary below:

	COMPANY	
	2013 Cents per share	2012 Cents per share
Previous year's final dividend paid in October	–	11.0
Current year's first interim dividend paid in December	–	–
Current year's second interim dividend paid in March	–	–
Total paid for the year	–	11.0

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

	2013 $000	2012 $000
Previous year's final dividend paid in October	–	7,509
Current year's first interim dividend paid in December	–	–
Current year's second interim dividend paid in March	–	–
Total paid for the year	–	$7,509

The Directors have decided that a final dividend of 4 cents per share be payable in respect of the current year ended 30 June 2013 (2012: Nil). This is dealt with as an event after balance date in the financial statements and disclosed in note 33.

Cash flow hedging reserve

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

Foreign currency translation reserve

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

Share rights reserve

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

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

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

18. EXECUTIVE SHARE RIGHTS PLAN

In 2000, the Company established the Cavalier Corporation Limited 2000 Executive Share Rights Plan ("the Plan") pursuant to which 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 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 2013, the earliest exercise date of these rights after balance date, and the impact on the number of shares that would have to be issued and the consequent dilutive effect of these shares:

	Scenario 1	Scenario 2	Scenario 3[1]
Market price (A) at exercise date	$3.300 or less	$4.300	$7.425
Estimated adjusted base price (B) at exercise date	$3.300	$3.300	$3.300
Rights holders' rewards (being (A-B) x 835,000 of the 13 October 2009 share rights outstanding at balance date)	Nil	$835,000	$3,444,400
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	194,186	463,889
Dilution effect (maximum 0.68%, when market price reaches $7.425 at exercise date)	Nil	0.28%	0.68%

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. EXECUTIVE SHARE RIGHTS PLAN (continued)

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

	COMPANY 2013 000	COMPANY 2012 000
Share rights on issue at 1 July	**3,340**	3,340
Share rights issued during the year	**–**	–
Share rights expired during the year	**(820)**	–
Share rights forfeited during the year	**–**	–
Share rights exercised during the year	**–**	–
Share rights on issue at 30 June	**2,520**	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**	2013 000	2012 000
November 2009	November 2012	**–**	820
October 2010	October 2013	**840**	840
November 2011	November 2014	**845**	845
October 2012	October 2015	**835**	835
		2,520	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 approval from shareholders.

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

18. EXECUTIVE SHARE RIGHTS PLAN (continued)

Based on the market prices of the Company's shares at the various issue dates of the rights, an estimated tax-paid cost of equity capital for the Company of 11% and assuming total dividend payments of 24 cents per share from 1 July 2013 to 13 October 2015 (when the last tranche of share rights expire), 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					
16 October 2007	$3.21	October 2013	$4.89	October 2013	$4.89
28 November 2008	$2.09	November 2013	$2.76	November 2014	$2.94
13 October 2009	$2.57	October 2013	$3.30	October 2015	$3.79

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 2013 of $1.70 per share remains unchanged, all the share rights will have no value to the key management personnel involved because the market price would be less than these adjusted base prices.

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

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

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

The estimated fair value of rights issued to senior executives under the Plan is recognised as an expense over the minimum three-year period between the issue date of the rights and the earliest exercise date of the rights. At the same time, a corresponding amount is recognised as a credit to equity in the statement of changes in equity. The amount that was recognised as an expense during the year was $19,000 (2012: $96,000).

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. EXECUTIVE SHARE RIGHTS PLAN (continued)

	Market price at issue date	Tax-paid cost of equity	Expected share price volatility	Vesting period	Expected life	Expected dividends (per annum)	Risk-free interest rate	Value of rights at issue date	Value of rights expensed to balance date	Value of rights to be expensed as at balance date
As at 30 June 2013										
13 October 2009 share rights	$2.60	11%	30.0%	Three years from issue	Three years from vesting	18.0 cents	4.56% - 4.82%	24.0 cents	24.0 cents	Nil
As at 30 June 2012										
13 October 2009 share rights	$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.

19. NON-CONTROLLING INTERESTS

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

The Group had a 96.75% interest in Ontera at balance date (2012: 96.75%).

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

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

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

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

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

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

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

The Group had a 100% interest in Radford Yarn Technologies Limited at balance date, following its completion of the purchase of the remaining 25% of Radford Yarn Technologies Limited.

Because the Group has, pursuant to NZ IAS 32 *Financial Instruments: Disclosure and Presentation*, been recognising put options granted to the non-controlling interests of Radford Yarn Technologies Limited in respect of their 25% shareholding (which are similar to the put options granted to the non-controlling interests of Ontera) as financial liabilities, it has effectively been treating these put options as if they had already been exercised.

As a consequence, the Group has already been accounting for the Radford Yarn Technologies operation in the consolidated financial statements as if it was 100% owned and the purchase will therefore not affect the way it has previously been accounted for.

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. NON-CONTROLLING INTERESTS (continued)

Impact of the accounting treatment

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

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

Future variability in financial liabilities created

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

Future payments of dividends to non-controlling interests

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

Presentation of financial liabilities created

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

	GROUP	
	2013 $000	2012 $000
Total amount payable to non-controlling interests at 1 July	**1,060**	4,113
Dividends paid to non-controlling interests	**–**	(234)
Amounts paid to non-controlling interests on acquisition of their shares	**(530)**	(1,519)
Adjustment to amount payable to non-controlling interests	**(320)**	(1,300)
Total amount payable to non-controlling interests at 30 June	**$210**	$1,060
Non-current	**–**	850
Current	**210**	210
Total amount payable to non-controlling interests at 30 June	**$210**	$1,060

20. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 25.

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 in June 2012.

The Group had total bank funding facilities of $78,628,000 at balance date, and the details of these facilities and their utilisation at that date (excluding overdraft facilities of $5,000,000) can be analysed as follows:

	GROUP		
	Facilities (excluding overdraft) $000	Facilities utilised at balance date $000	Facilities unutilised at balance date $000
Facilities due for review:			
after 2 years but within 3 years	**20,000**	**3,000**	**17,000**
after 1 year but within 2 years	**58,628**	**55,896**	**2,732**
Total	**$78,628**	**$58,896**	**$19,732**

	GROUP		
		Facilities due for review	
	Facilities (excluding overdraft) $000	After 1 year but within 2 years $000	After 2 years but within 3 years $000
Secured bank facilities (denominated in NZD)	**71,500**	**51,500**	**20,000**
Secured bank facilities (denominated in AUD)	**7,128**	**7,128**	**-**
Total secured bank facilities	**$78,628**	**$58,628**	**$20,000**

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

	GROUP					
	Nominal interest rate 2013 %	Face value 2013 $000	Carrying amount 2013 $000	Nominal interest rate 2012 %	Face value 2012 $000	Carrying amount 2012 $000
Secured bank loans (denominated in NZD)	**5.3**	**54,500**	**54,500**	4.6	62,500	62,500
Secured bank loans (denominated in AUD)	**5.1**	**4,396**	**4,396**	6.2	6,003	6,003
Total secured bank loans		**$58,896**	**$58,896**		$68,503	$68,503
Non-current		**58,896**	**58,896**		68,503	68,503
Current		**–**	**–**		–	–
Total secured bank loans		**$58,896**	**$58,896**		$68,503	$68,503

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. LOANS AND BORROWINGS (continued)

The Group also had unsecured borrowings, which are repayable on demand, from related parties of $86,000 at balance date (2012: $93,000) (see note 31).

Certain companies in the Group have granted in favour of Bank of New Zealand, as security agent for the Bank, a first-ranking composite general security deed and cross guarantee securing all obligations of the Group to the Bank, including obligations for the payment and repayment of moneys due, owing or payable by the Group to the Bank.

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 9).

The Company had no loans and borrowings at 30 June 2013 (2012: Nil).

21. EMPLOYEE BENEFITS

	GROUP		COMPANY	
	2013 $000	2012 $000	**2013 $000**	2012 $000
Liability for retiring allowances	**991**	1,557	**457**	1,512
Liability for long service leave	**1,453**	1,439	**29**	153
Total employee benefits	**$2,444**	$2,996	**$486**	$1,665

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

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

22. DEFERRED INCOME

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

	GROUP	
	2013 $000	2012 $000
Balance as at 1 July	**434**	462
Incentives granted	**–**	42
Released to income	**(75)**	(70)
Balance as at 30 June	**$359**	$434
Non-current	**291**	364
Current	**68**	70
Balance as at 30 June	**$359**	$434

23. PROVISIONS

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

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

Insurances

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

23. PROVISIONS (continued)

Restructuring

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

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

During the previous financial 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.

$1,099,000 of these provisions, were released to profit or loss during the year, mainly because contract terminations costs were less than those previously estimated by management.

Warranties

The provision for warranties relates mainly to carpet sold during the years ended 30 June 2013 and 2012. 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.

24. TRADE CREDITORS AND ACCRUALS

	GROUP		COMPANY	
	2013 $000	2012 $000	**2013 $000**	2012 $000
Trade payables due to external parties	**24,247**	20,911	**–**	–
Accrued expenses	**2,034**	2,288	**67**	66
	$26,281	$23,199	**$67**	$66

25. FINANCIAL INSTRUMENTS

Management commentary

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

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

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

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

Credit risk

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

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

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

25. 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	
	2013 $000	2012 $000
New Zealand	**10,817**	10,521
Australia	**14,979**	16,635
Other regions	**1,280**	1,056
Trade and other receivables	**$27,076**	$28,212

25. 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 2013 $000	Impairment 2013 $000	Gross receivable 2012 $000	Impairment 2012 $000
Not past due	**19,011**	**–**	21,572	–
Past due 0 - 30 days	**6,247**	**–**	6,048	–
Past due 31 - 120 days	**1,864**	**(46)**	607	(39)
Past due > 120 days	**–**	**–**	150	(126)
Total	**$27,122**	**$(46)**	$28,377	$(165)

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

	GROUP	
	2013 $000	2012 $000
Trade and other receivables – gross	**27,122**	28,377
Individual impairment	**(46)**	(165)
Trade and other receivables – net	**$27,076**	$28,212

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	
	2013 $000	2012 $000
Balance at 1 July	**(165)**	(273)
Impaired trade receivables written off	**50**	91
Changes in impairment provision	**69**	17
Balance at 30 June	**$(46)**	$(165)

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 (2012: Nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)

25. FINANCIAL INSTRUMENTS (continued)

Quantitative disclosures (continued)

Liquidity risk

The following table sets out the contractual cash flows for all material financial liabilities (including projected interest costs). The Group expects that it will be able to meet all of its contractual obligations out of the positive net cash flow from operating activities, currently unutilised bank facilities (see note 20) and cash and cash equivalents at bank.

	GROUP					
			Timing of contractual cash flows			
	Statement of financial position $000	Total contractual cash flows $000	6 months or less $000	6-12 months $000	1-2 years $000	2-5 years $000
2013						
Secured bank loans	**58,896**	**61,449**	**1,125**	**1,125**	**56,189**	**3,010**
Unsecured borrowings	**86**	**86**	**86**	**–**	**–**	**–**
Trade creditors and accruals	**26,281**	**26,281**	**26,281**	**–**	**–**	**–**
Employee entitlements	**6,090**	**6,090**	**6,090**	**–**	**–**	**–**
Other payables	**210**	**210**	**210**	**–**	**–**	**–**
Bank overdraft	**234**	**234**	**234**	**–**	**–**	**–**
Total non-derivative liabilities	**$91,797**	**$94,350**	**$34,026**	**$1,125**	**$56,189**	**$3,010**
Interest rate swaps	**–**	**$(602)**	**$(258)**	**$(237)**	**$(43)**	**$(64)**
Forward exchange contracts						
Inflow	**–**	**54,651**	**26,222**	**12,503**	**15,926**	**–**
Outflow	**–**	**(52,178)**	**(25,028)**	**(11,933)**	**(15,217)**	**–**
	–	**$2,473**	**$1,194**	**$570**	**$709**	**–**
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	–	–	–

25. FINANCIAL INSTRUMENTS (continued)

Quantitative disclosures (continued)

Liquidity risk (continued)

	COMPANY					
			Timing of contractual cash flows			
	Statement of financial position $000	Total contractual cash flows $000	6 months or less $000	6-12 months $000	1-2 years $000	2-5 years $000
2013						
Trade creditors and accruals	**67**	**67**	**67**	**–**	**–**	**–**
Employee entitlements	**107**	**107**	**107**	**–**	**–**	**–**
Total non-derivative liabilities	**$174**	**$174**	**$174**	**–**	**–**	**–**
2012						
Trade creditors and accruals	66	66	66	–	–	–
Employee entitlements	555	555	555	–	–	–
Total non-derivative liabilities	$621	$621	$621	–	–	–

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 $000
2013				
Trade receivables	**15,394**	**395**	**443**	**–**
Secured bank loans	**(4,485)**	**–**	**–**	**–**
Trade payables	**(9,099)**	**(6,908)**	**(433)**	**(67)**
Net statement of financial position exposure before hedging activity	**1,810**	**(6,513)**	**10**	**(67)**
Estimated forecast sales for which hedging is in place	**60,047**	**291**	**5**	**–**
Estimated forecast purchases for which hedging is in place	**–**	**(1,013)**	**(485)**	**–**
Net cash flow exposure before hedging activity	**61,857**	**(7,235)**	**(470)**	**(67)**
Forward exchange contracts				
Notional amounts	**(61,857)**	**5,541**	**359**	**59**
Net unhedged exposure	**–**	**$(1,694)**	**$(111)**	**$(8)**
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

The Company had no exposure to foreign currency risk at balance date (2012: Nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)

25. FINANCIAL INSTRUMENTS (continued)

Quantitative disclosures (continued)

Interest rate risk – re-pricing analysis

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

	GROUP									
	2013					2012				
	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 $000
Financial assets and liabilities										
Cash and cash equivalents	**5,932**	**5,932**	**–**	**–**	**–**	2,029	2,029	–	–	–
Secured bank loans	**(58,896)**	**(58,896)**	**–**	**–**	**–**	(68,503)	(68,503)	–	–	–
Unsecured borrowings	**(86)**	**(86)**	**–**	**–**	**–**	(93)	(93)	–	–	–
Bank overdrafts	**(234)**	**(234)**	**–**	**–**	**–**	(79)	(79)	–	–	–
	(53,284)	**(53,284)**	**–**	**–**	**–**	(66,646)	(66,646)	–	–	–
Related derivatives										
Effect of interest rate swaps	**–**	**25,000**	**(20,000)**	**–**	**(5,000)**	–	25,000	–	(20,000)	(5,000)
Total	**$(53,284)**	**$(28,284)**	**$(20,000)**	**–**	**$(5,000)**	$(66,646)	$(41,646)	–	$(20,000)	$(5,000)

The Company had no exposure to interest rate risk arising from either fixed rate instruments or variable rate instruments and related derivatives (2012: Nil).

25. FINANCIAL INSTRUMENTS (continued)

Capital management

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

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

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

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

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

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

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

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

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

	GROUP	
	2013 $000	2012 $000
Total loans and borrowings, including current portion	**58,982**	68,596
Plus bank overdraft	**234**	79
Less cash and cash equivalents	**(5,932)**	(2,029)
Net debt	**53,284**	66,646
Total equity	**93,918**	90,855
Total capital employed	**$147,202**	$157,501
Gearing ratio	**56.7%**	73.4%
Leverage	**36.2%**	42.3%

NOTES TO THE FINANCIAL STATEMENTS (continued)

25. FINANCIAL INSTRUMENTS (continued)

Sensitivity analysis

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

At 30 June 2013, it is estimated that a general increase of one percentage point in interest rates would decrease the Group's profit before income tax by approximately $340,000 (2012: increase loss by $432,000). 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 2013 and 2012 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 2013, the Group had interest rate swaps with a notional contract amount of $25,000,000 (2012: $27,554,000). Of these, none will mature within six months of balance date (2012: $2,554,000), with the balance maturing over the next three years. The Group classifies interest rate swaps as cash flow hedges. These swaps have fixed swap rates ranging from 4.65% to 6.29% (2012: 4.65% to 7.14%).

The net fair value of swaps at 30 June 2013 was a loss of $431,000 (2012: $985,000).

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 24 months of balance date. The net fair value of forward exchange contracts used as hedges of forecast transactions at 30 June 2013 was a gain of $1,811,000 (2012: $32,000).

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 2013 was a gain of $661,000 (2012: $6,000) recognised in fair value derivatives.

Hedge of net investment in foreign operation

One of the Group's Australian dollar denominated secured bank loans is designated as a hedge against the property held by a subsidiary. The carrying amount of the loan at 30 June 2013 was $3,208,000 (2012: $3,448,000). A gain of $240,000 (2012: $47,000) was recognised in the foreign currency translation reserve within equity on the translation of the loan to New Zealand dollars.

25. FINANCIAL INSTRUMENTS (continued)

Classification and fair values

	GROUP									
	2013					2012				
	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	**2,518**	**27,076**	**–**	**29,594**	**29,594**	97	28,212	–	28,309	28,309
Cash and cash equivalents	**–**	**5,932**	**–**	**5,932**	**5,932**	–	2,029	–	2,029	2,029
Total assets	**$2,518**	**$33,008**	**–**	**$35,526**	**$35,526**	$97	$30,241	–	$30,338	$30,338
Liabilities										
Loans and borrowings	**–**	**–**	**58,896**	**58,896**	**58,896**	–	–	68,503	68,503	68,503
Total non-current liabilities	**–**	**–**	**58,896**	**58,896**	**58,896**	–	–	68,503	68,503	68,503
Bank overdraft	**–**	**–**	**234**	**234**	**234**	–	–	79	79	79
Loans and borrowings	**–**	**–**	**86**	**86**	**86**	–	–	93	93	93
Trade and other payables, including derivatives	**477**	**–**	**32,581**	**33,058**	**33,058**	1,044	–	29,568	30,612	30,612
Total current liabilities	**477**	**–**	**32,901**	**33,378**	**33,378**	1,044	–	29,740	30,784	30,784
Total liabilities	**$477**	**–**	**$91,797**	**$92,274**	**$92,274**	$1,044	–	$98,243	$99,287	$99,287

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 negotiated in June 2012, the underlying interest rate margins approximate current margins, and fair value approximates the present value of future principal and interest cash flows.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

	GROUP		COMPANY	
	2013 $000	2012 $000	**2013 $000**	2012 $000
Profit/(Loss) after tax for the period	**3,030**	(1,633)	**131**	7,896
Add/(Deduct) non-cash items:				
Equity-settled share-based transactions	**19**	96	**19**	96
Depreciation	**6,328**	6,738	**–**	–
Reversal of impairment of trademark	**(292)**	–	**–**	–
Impairment of plant and equipment	**572**	694	**–**	–
Deferred government grants	**(351)**	(380)	**–**	–
Share of profit of equity-accounted investee	**(5,013)**	(3,302)	**–**	–
Deferred tax asset	**(1,569)**	(1,750)	**453**	135
Employee benefits	**(535)**	(475)	**–**	(308)
Deferred income	**(75)**	(28)	**–**	–
Provisions	**630**	6,092	**–**	–
Net loss on sale of property, plant and equipment	**9**	86	**–**	–
Net gain on sale of plant and equipment held for sale	**–**	(106)	**–**	–
Net loss/(gain) on foreign currency balance	**61**	(10)	**–**	–
Changes in working capital items:				
Trade and other receivables	**912**	1,114	**–**	–
Inventories	**5,248**	10,117	**–**	–
Tax payable/receivable	**(83)**	(2,036)	**(117)**	(119)
Trade creditors and accruals	**3,440**	(7,265)	**(1,626)**	(175)
Derivative financial instruments	**(655)**	141	**–**	–
Net cash flow from operating activities	**$11,676**	$8,093	**$(1,140)**	$7,525

27. SEGMENT REPORTING

Reportable segments

The Group's reportable segments are:

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

An operating segment is a component of the Group:

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

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

In determining its reportable segments, the Group considered the criteria set out in paragraph 12 of NZ IFRS 8 and was able to aggregate the 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 ultimately all carpets.

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

Nature of the production processes

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

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

Type or class of customers for their products

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

27. 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

Carpet tiles and broadloom carpets are being distributed through similar 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.

27. SEGMENT REPORTING (continued)

Inter-segment transactions

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

Information about geographical areas

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

	GROUP	
	2013 $000	2012 $000
Revenue		
New Zealand	**85,696**	94,609
Australia	**110,275**	116,838
Rest of the world	**5,768**	5,751
	$201,739	$217,198

	GROUP	
	As at 30 June 2013 $000	As at 30 June 2012 $000
Non-current assets		
New Zealand	**81,011**	82,519
Australia	**22,368**	24,654
	$103,379	$107,173

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

27. SEGMENT REPORTING (continued)

	CARPETS		WOOL ACQUISITION		OTHER		TOTAL	
	2013 $000	2012 $000	2013 $000	2012 $000	2013 $000	2012 $000	2013 $000	2012 $000
External revenue	**168,963**	178,927	**29,783**	34,293	**2,993**	3,978	**201,739**	217,198
Inter-segment revenue	**–**	–	**4,903**	6,464	**2,598**	2,841	**7,501**	9,305
Total revenue	**$168,963**	$178,927	**$34,686**	$40,757	**$5,591**	$6,819	**209,240**	226,503
Elimination of inter-segment revenue							**(7,501)**	(9,305)
Consolidated revenue							**$201,739**	$217,198
Segment result before depreciation and restructuring costs	**12,352**	12,550	**1,532**	658	**146**	406	**14,030**	13,614
Depreciation	**(5,944)**	(6,367)	**(102)**	(102)	**(282)**	(269)	**(6,328)**	(6,738)
Segment result before restructuring costs	**6,408**	6,183	**1,430**	556	**(136)**	137	**7,702**	6,876
Restructuring costs[1]	**(4,991)**	(8,218)	**–**	–	**–**	–	**(4,991)**	(8,218)
Segment result after restructuring costs	**1,417**	(2,035)	**1,430**	556	**(136)**	137	**2,711**	(1,342)
Elimination of inter-segment profits							**(162)**	450
Unallocated corporate costs							**(1,726)**	(1,786)
Results from operating activities							**823**	(2,678)
Net finance costs							**(3,740)**	(4,049)
Share of profit of equity-accounted investee (net of income tax)							**5,013**	3,302
Profit/(Loss) before income tax							**2,096**	(3,425)
Income tax benefit							**934**	1,792
Profit/(Loss) after tax for the period							**$3,030**	$(1,633)
Reportable segment assets	**162,924**	167,901	**2,371**	3,538	**7,486**	7,402	**172,781**	178,841
Investment in equity-accounted investee							**23,856**	22,593
Unallocated assets							**–**	–
Total assets							**$196,637**	$201,434
Capital expenditure	**1,871**	2,025	**36**	105	**–**	327	**$1,907**	$2,457
Reportable segment liabilities	**40,361**	38,947	**2,134**	1,551	**1,242**	1,485	**43,737**	41,983
Unallocated liabilities							**58,982**	68,596
Total liabilities							**$102,719**	$110,579
Employee numbers								
Operations	**678**	722	**34**	23	**29**	26	**741**	771
Unallocated							**4**	4
Total employee numbers							**745**	775

[1] Employee termination benefits, employee supports costs, costs to relocate plant and equipment and contract termination costs as a consequence of further business improvement plans initiated during the year to improve the level of efficiencies and to reposition the broadloom carpet business in terms of cost base, capacity, structure, product portfolio, channels and markets (2012: 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). Refer to note 23 for further commentary on these restructuring initiatives.

28. OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	GROUP	
	2013 $000	2012 $000
Less than one year	**7,226**	7,425
Between one and five years	**21,478**	24,481
More than five years	**3,167**	5,308

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 relating to its longer-term leases and because titles in the relevant land do not pass, rentals paid are increased to market rents at regular intervals, and the Group does not participate in the residual value of the building, it is satisfied that substantially all the risks and rewards of the buildings are with the landlord. These leases have therefore been dealt with as operating leases in the financial statements.

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

	Term from balance date	Rights of renewal
6 Hautu Drive, Auckland, New Zealand	4 years	Two rights of renewal of 6 years each
273 Neilson Street, Auckland, New Zealand	7 years	None
373 Neilson Street, Auckland, New Zealand	6 years	None
27 Connaught Drive, Christchurch, New Zealand	4 years	Two rights of renewal of 6 years each
171 Briens Road, Sydney, Australia	3 years	One right of renewal of 10 years
10 Gassman Drive, Yatala, Queensland, Australia	4 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 except for the warehouse and distribution facility at 373 Neilson Street, Auckland which was sub-leased during the financial year, following the decision that was made in the previous financial year to consolidate the warehousing and distribution facilities of the Cavalier Bremworth and Norman Ellison Carpets broadloom carpet businesses at the one site in Auckland.

During the year ended 30 June 2013, $6,738,000 was recognised as an expense in the income statement in respect of operating leases (2012: $7,689,000).

The Company had no lease commitments as a lessee at balance date (2012: Nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)

28. OPERATING LEASES (continued)

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 2013, $23,000 was recognised as rentals received in the income statement in respect of the lease of these premises (2012: $22,000).

The Company had no lease commitments as a lessor at balance date (2012: Nil).

29. CAPITAL COMMITMENTS

As at balance date, the Group had outstanding commitments for capital expenditure (being plant and equipment for its various manufacturing operations) of $60,000 (2012: $50,000). These commitments are expected to be settled in the following financial year.

The Company had no capital commitments at balance date (2012: Nil).

30. CONTINGENCIES

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

	GROUP	
	2013 $000	2012 $000
Bank guarantees in respect of operating leases and other commitments	**$1,496**	$1,497

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

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

The Group's indebtedness under the cross guarantee at balance date amounted to $55,489,000 (2012: $63,049,000).

31. RELATED PARTIES

GROUP

Transactions with substantial security holders

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

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

The Group'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 4.6% (2012: 4.67%) for borrowings of a similar tenure from the Bank of New Zealand.

31. RELATED PARTIES (continued)

GROUP (continued)

Transactions with substantial security holders (continued)

	GROUP	
	2013 $000	2012 $000
Chippendale Holdings Limited	**9**	10
Rural Aviation (1963) Limited	**77**	83
Total	**$86**	$93
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 18.

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 key management personnel of the Company and the Group during the year ended 30 June 2013 (2012: 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 (2012: Nil).

Non-executive directors' remuneration

The fees paid to the non-executive directors for services in their capacity as non-executive directors totalled $314,456 during the year ended 30 June 2013 (2012: $293,467).

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

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

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 continued 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 continued to assume, Mr Chung was paid $6,533 of consultancy fees during the year.

No other services were provided by the non-executive directors during the year (2012: Nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)

31. RELATED PARTIES (continued)

GROUP (continued)

Transactions with directors and key management personnel (continued)

Non-executive directors' remuneration (continued)

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 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 18.

31. RELATED PARTIES (continued)

GROUP (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	**2013 $000**	2012 $000	**2013 $000**	2012 $000
Wages, salaries, bonuses and holiday pay		**3,753**	3,703	**3,005**	2,913
Consultancy fees		**351**	379	**-**	-
Employee benefits		**634**	457	**509**	366
Increase in liability for retiring allowances and long service leave		**(240)**	81	**(240)**	81
Equity-settled share-based payments	18	**19**	96	**19**	96
		$4,517	$4,716	**$3,293**	$3,456

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 immaterial or personal 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 19 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.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

31. RELATED PARTIES (continued)

GROUP (continued)

Transactions with non-controlling interests (continued)

Purchase of shares in non-wholly-owned subsidiaries

The Company completed its purchase of the remaining 25% of Radford Yarn Technologies Limited during the year. The purchase price amounted to $530,000.

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 Radford Yarn Technologies Limited in respect of their 25% shareholding as financial liabilities, effectively treating these put options as if they had already been exercised and treating Radford Yarn Technologies Limited in the consolidated financial statements as if it was 100% owned.

As a consequence, the acquisition of the 25% of Radford Yarn Technologies Limited will not affect the way it has previously been accounted for.

The Group completed its purchase of the remaining 30% of Norman Ellison Carpets Limited in the previous financial year, making it a wholly-owned subsidiary at the previous balance date.

Dividends paid to non-controlling interests

No dividends were paid to the non-controlling interests in non-wholly-owned subsidiaries during the year (2012: $234,000).

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	
	2013 $000	2012 $000
Dividends received		
From:		
Cavalier Bremworth Limited	**–**	3,000
Knightsbridge Carpets Limited	**–**	3,000
Ontera Modular Carpets Pty Limited	**–**	1,241
Norman Ellison Carpets Limited	**–**	448
Total	**–**	$7,689
Management fees charged		
To:		
Cavalier Bremworth Limited	**1,900**	3,000
Knightsbridge Carpets Limited	**100**	350
Cavalier Bremworth (Australia) Limited	**300**	500
Cavalier Spinners Limited	**100**	650
Total	**$2,400**	$4,500
Advances to/(from) subsidiaries during the year		
Cavalier Bremworth Limited	**(1,871)**	(1,948)
Knightsbridge Carpets Limited	**100**	127
Cavalier Spinners Limited	**100**	319
Total	**$(1,671)**	$(1,502)

31. RELATED PARTIES (continued)

COMPANY (continued)

Transactions with subsidiaries (continued)

	COMPANY 2013 $000	COMPANY 2012 $000
Advances to/(from) subsidiaries at balance date		
Cavalier Bremworth Limited	**(3,556)**	(1,685)
Knightsbridge Carpets Limited	**750**	650
Cavalier Bremworth (Australia) Limited	**135**	135
E Lichtenstein and Company Limited	**(35)**	(35)
Cavalier Spinners Limited	**1,778**	1,678
EnCasa Carpets Limited	**(50)**	(50)
Cavalier Holdings (Australia) Pty Limited	**271**	271
Microbial Technologies Limited	**(535)**	(535)
Total	**$(1,242)**	$429

These advances are interest free and are repayable on demand.

32. GROUP ENTITIES

	COUNTRY OF INCORPORATION	INTEREST % 2013	INTEREST % 2012
Operating subsidiaries of the Company and Group			
Cavalier Bremworth Limited	New Zealand	**100.00**	100.00
Cavalier Bremworth (Australia) Limited	New Zealand	**100.00**	100.00
Cavalier Bremworth Pty Limited	Australia	**100.00**	100.00
Cavalier Spinners Limited	New Zealand	**100.00**	100.00
Elco Direct Limited	New Zealand	**100.00**	100.00
Kimberley Carpets Pty Limited	Australia	**100.00**	100.00
Knightsbridge Carpets Limited	New Zealand	**100.00**	100.00
Norman Ellison Carpets Limited	New Zealand	**100.00**	100.00
Norman Ellison Carpets Pty Limited	Australia	**100.00**	100.00
Radford Yarn Technologies Limited	New Zealand	**100.00**	75.00
Ontera Modular Carpets Pty Limited	Australia	**96.75**	96.75
Ontera Modular Carpets Limited	New Zealand	**96.75**	96.75
Equity-accounted investee of the Group			
Cavalier Wool Holdings Limited	New Zealand	**50.00**	50.00

NOTES TO THE FINANCIAL STATEMENTS (continued)

33. EVENTS AFTER BALANCE DATE

Dividends

The Directors declared a final dividend in respect of the year ended 30 June 2013 of 4 cents per share fully imputed on 68,263,857 shares giving a total of $2,730,554 (2012: Nil).

34. 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:

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 does not expect any material 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.

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.

34. AMENDMENTS TO STANDARDS (continued)

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

	2013 $000	2012 $000	2011 $000	2010 $000	2009 $000	2008 $000
Financial Performance						
Operating revenue	**$201,739**	$217,198	$229,373	$220,274	$246,686	$250,056
EBITDA and one-off costs	**12,142**	12,278	31,916	27,257	31,643	39,960
Depreciation	**(6,328)**	(6,738)	(6,315)	(5,581)	(6,643)	(6,762)
Amortisation	**–**	–	–	–	–	–
EBIT and one-off costs	**5,814**	5,540	25,601	21,676	25,000	33,198
Net interest expense	**(3,740)**	(4,049)	(3,545)	(3,478)	(5,936)	(6,493)
Share of tax-paid profit/(loss) of equity-accounted investees	**5,013**	3,302	2,039	4,015	430	(5)
Profit before income tax (normalised)	**7,087**	4,793	24,095	22,213	19,494	26,700
Income tax expense	**(463)**	(510)	(6,829)	(5,586)	(5,843)	(8,763)
Profit after tax (normalised)	**6,624**	4,283	17,266	16,627	13,651	17,937
Non-controlling interests	**–**	–	–	–	–	–
Profit after tax attributable to shareholders of the company (normalised)	**6,624**	4,283	17,266	16,627	13,651	17,937
One-off costs (after tax)	**(3,954)**[1]	(5,916)[2]	914[3]	(5,258)[4]	1,238[5]	–
Profit/(Loss) after tax attributable to shareholders of the company (reported)	**3,030**	(1,633)	18,180	11,369	14,889	17,937
Ordinary dividends paid	**–**	(7,509)	(12,233)	(10,104)	(12,075)	(12,867)
Profit/(Loss) after dividends	**$3,030**	$(9,142)	$5,947	$1,265	$2,814	$5,070
Financial Position						
Shareholders' equity	**93,918**	90,855	99,294	91,451	87,595	85,104
Loans and borrowings	**58,896**	68,503	60,070	51,776	54,585	81,000
Term liabilities	**6,961**	5,591	4,927	6,526	6,324	6,835
Deferred tax liability	**–**	–	–	726	–	–
Current liabilities	**36,862**	36,485	51,434	40,545	47,960	49,206
Shareholders' equity and total liabilities	**$196,637**	$201,434	$215,725	$191,024	$196,464	$222,145
Fixed assets	**68,932**	75,080	80,110	75,878	77,013	99,669
Investment in equity-accounted investees	**23,856**	22,593	22,291	20,095	18,859	169
Goodwill and other intangibles	**7,794**	7,502	7,502	5,292	5,533	11,137
Deferred tax asset	**2,797**	1,998	158	–	3,175	1,999
Non-current assets	**103,379**	107,173	110,061	101,265	104,580	112,974
Current assets	**93,258**	94,261	105,664	89,759	91,884	109,171
Total assets	**$196,637**	$201,434	$215,725	$191,024	$196,464	$222,145

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

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

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

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

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

	2013	2012	2011	2010	2009	2008
Financial Ratios and Summary						
Use of Funds and Return on Investment						
Return on average shareholders' equity (normalised)	**7.2%**	4.5%	18.1%	18.6%	15.8%	22.8%
NOPAT : Total funds employed (normalised)	**5.4%**	4.4%	10.8%	12.9%	11.5%	13.2%
Basic and diluted earnings per ordinary share (normalised)	**9.7c**	6.3c	25.4c	24.6c	20.3c	27.1c
Financial Structure						
Net tangible asset backing per ordinary share	**$1.26**	$1.22	$1.34	$1.27	$1.22	$1.10
Proprietorship ratio	**47.8%**	45.1%	46.0%	47.9%	44.6%	38.3%
Net interest-bearing debt : equity ratio	**36:64**	42:58	40:60	35:65	42:58	50:50
Net interest cover (normalised) (times)	**3.0**	2.4	7.2	7.5	4.2	5.1
Return to Shareholders						
Dividends paid per ordinary share (excluding supplementary)	-	11.0c	18.0c	15.0c	18.0c	19.5c
Dividend imputation	-	100%	100%	100%	100%	100%
Ordinary dividend cover (normalised) (times)	-	0.6	1.4	1.6	1.1	1.4
Supplementary dividends paid per ordinary share	-	1.94c	3.18c	2.65c	3.18c	3.44c
Share Price						
June	**$1.70**	$1.52	$3.80	$2.45	$1.80	$2.28
52 week high	**$2.12**	$3.83	$4.00	$2.95	$3.10	$3.43
52 week low	**$1.45**	$1.41	$2.33	$1.80	$1.15	$2.28
Market Capitalisation ($000)						
June	**$116,049**	$103,761	$259,403	$166,197	$120,748	$152,948
Capital Expenditure and Depreciation ($000)						
Capital expenditure	**$1,907**	$2,457	$5,391	$6,002	$12,510	$9,656
Depreciation	**$6,328**	$6,738	$6,315	$5,581	$6,643	$6,762

TREND STATEMENT (continued)

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

FINANCIAL STRUCTURE

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

RETURN TO SHAREHOLDERS

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

DISCLOSURE OF NON-GAAP FINANCIAL INFORMATION

The Directors acknowledge that the Annual Report, including the Trend Statement from pages 92 to 94, contains financial information that is non-GAAP (Generally Accepted Accounting Practice) and therefore falls within the Financial Markets Authority's guidance note on "Disclosing non-GAAP financial information" issued in September 2012.

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

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

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

The disclosure of the non-GAAP financial information is also consistent with how the financial information for the Group is reported internally, and reviewed by the Managing Director as its chief operating decision maker, and provides what the Directors and management believe gives a more meaningful insight into the underlying financial performance of the Group and a better understanding of how the Group is tracking after taking into account items of a one-off, non-recurring or unusual nature.

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

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

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

DISCLOSURE OF NON-GAAP FINANCIAL INFORMATION (continued)

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

	GAAP-compliant reported profit/(loss) after tax	Add back restructuring costs (net of tax)	Normalised profit/(loss) after tax
Year ended 30 June 2013			
Profit/(Loss) attributable to shareholders	**$3,030,000**	**$3,594,000**	**$6,624,000**
Weighted average number of ordinary shares	**68,263,857**		**68,263,857**
Earnings per share (basic and diluted)	**4.4 cents**		**9.7 cents**
Year ended 30 June 2012			
Profit/(Loss) attributable to shareholders	$(1,633,000)	$5,916,000	$4,283,000
Weighted average number of ordinary shares	68,263,857		68,263,857
Earnings per share (basic and diluted)	(2.4 cents)		6.3 cents

OTHER DISCLOSURES

DISCLOSURES UNDER THE COMPANIES ACT 1993

Year ended 30 June 2013

DIRECTORS (s211(1)(i))

The Directors of the Company as at 30 June 2013 were:

G C W Biel

G S Hawkins

S E F Haydon

A M James

C A McKenzie

K L Thorpe

S E F Haydon was appointed a director on 14 August 2012 and was formally elected to the Board at the 2012 Annual Meeting of shareholders held on 16 November 2012.

W K Chung retired from the Board at the conclusion of the 2012 Annual Meeting of shareholders.

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 an increase in the base remuneration of C A McKenzie by $25,000 per annum with the increase to take effect from 1 July 2013.

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 2013 to 30 June 2014. The cost of this cover is $22,280.

Share dealing (s148)

During the year, a notice in relation to share dealing was received from S E F Haydon who acquired, on 11 October 2012, a relevant interest in 10,000 ordinary shares at an average price of $1.97 per share.

INTERESTS REGISTER (continued)

Share dealing (continued)

Directors' relevant interests in shares in the Company as at 30 June 2013 were[1]:

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

Directors' relevant interests in rights under the Cavalier Corporation Limited 2000 Executive Share Rights Plan[3] as at 30 June 2013 were:

C A McKenzie	
Beneficial	220,000
Other	–

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

[1] W K Chung, who retired from the Board on 16 November 2012, had a beneficial relevant interest in 220,776 ordinary shares and 360,000 share rights (including those held by trusts of which he is a beneficiary) in the Company as at 30 June 2013.

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

[3] A summary of the terms of the Plan is set out on pages 59 to 62 of this document (note 18 of the Notes to the Financial Statements).

DISCLOSURES UNDER THE COMPANIES ACT 1993 (continued)

Year ended 30 June 2013

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:

G C W Biel

Director of:
- Auckland Air Charter Limited
- Auckland Jet Centre Limited
- Heli Harvest Limited
- International Helicopter Leasing Limited
- Westburn Investments Limited

Director and shareholder of:
- Bay Cliffe Industries Limited
- Baycliffe Enterprises Limited
- Bondworth Carpets Limited
- Heli Harvest Management Limited
- Rural Aviation (1963) Limited

G 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

S E F Haydon

Director of AsureQuality Limited

Chair of New Zealand Riding for the Disabled Association

Executive Committee Member of Waste Disposal Services

Associate of:
- The Boardroom Practice Limited
- Dial-a-CFO

Trustee of:
- R&E Seelye Trust

INTERESTS REGISTER (continued)

General disclosures of interest (continued)

A M James	None
C A McKenzie[1]	Chairman of: Cavalier Wood Holdings Limited Director of: Cavalier Woolscourers Limited Hawkes Bay Woolscourers Limited Canterbury Woolscourers Limited Woolscouring Enterprises (2003) Limited Lanolin Trading Company Limited
K L Thorpe	Director and shareholder of: Custom Consulting Limited

[1] Excludes directorships of subsidiaries of the Group which are set out on page 103.

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 2013 were:

	2013	2012
G C W Biel	**$48,000**	$48,000
W K Chung [1]	**$32,666**	$1,202,505
G S Hawkins	**$54,000**	$54,000
S E F Haydon [2]	**$42,323**	-
A M James	**$96,000**	$96,000
C A McKenzie [3]	**$526,521**	$442,245
K L Thorpe	**$48,000**	$48,000

[1] W K Chung retired from the Board on 16 November 2012. The amount paid to him during the year includes $6,533 of consultancy fees. The amount that was paid to him in the previous year comprised total remuneration and value of other benefits (including retiring allowances, long service leave and holiday pay accrued) up until his retirement as 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] S E F Haydon was appointed to the Board on 14 August 2012.

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

DISCLOSURES UNDER THE COMPANIES ACT 1993 (continued)

Year ended 30 June 2013

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 2013 fall into the various brackets specified by the Companies Act 1993 is as follows:

Remuneration and value of other benefits $[1]	NUMBER OF EMPLOYEES 2013	2012
100,000 – 109,999	**25**	29
110,000 – 119,999	**18**	23
120,000 – 129,999	**13**	14
130,000 – 139,999	**25**	20
140,000 – 149,999	**11**	7
150,000 – 159,999	**4**	6
160,000 – 169,999	**5**	4
170,000 – 179,999	**1**	4
180,000 – 189,999	**2**	4
190,000 – 199,999	**3**	3
200,000 – 209,999	**6**	2
210,000 – 219,999	**-**	1
220,000 – 229,999	**2**	-
230,000 – 239,999	**5**	4
240,000 – 249,999	**-**	1
250,000 – 259,999	**1**	2
260,000 – 269,999	**-**	-
270,000 – 279,999	**-**	-
280,000 – 289,999	**-**	-
290,000 – 299,999	**1**	-
300,000 – 309,999	**-**	-
310,000 – 319,999	**1**	-
320,000 – 329,999	**-**	1
330,000 – 339,999	**1**	-
340,000 – 349,999	**2**	-
350,000 – 359,999	**-**	-
360,000 – 369,999	**-**	1
1,020,000 – 1,029,999	**1**	-
Total number of employees	**127**	126

[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 44 of the Annual Report (note 5 of the Notes to the Financial Statements).

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

Refer to page 44 of the Annual Report (note 5 of the Notes to the Financial Statements).

SUBSIDIARY COMPANY DIRECTORS (s211(2))

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

Subsidiaries	**Directors**
Cavalier Bremworth Limited 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	P J Alston (appointed during the year) C A McKenzie W K Chung (resigned during the year)
Cavalier Holdings (Australia) Pty. Limited Cavalier Bremworth Pty. Limited Kimberley Carpets Pty. Limited Cavalier Bremworth (Australia) Limited	P J Alston (appointed during the year) C A Howitt C A McKenzie W K Chung (resigned during the year)
Ontera Modular Carpets Pty. Limited Ontera Modular Carpets Limited	P J Alston (appointed during the year) C A McKenzie D Rowlinson W K Chung (resigned during the year)
Norman Ellison Carpets Limited Carpet Distributors Limited Horizon Yarns Limited NEC Limited	P J Alston (appointed during the year) C A McKenzie W B Norman W K Chung (resigned during the year)
Norman Ellison Carpets Pty. Limited	P J Alston (appointed during the year) C A Howitt (appointed during the year) C A McKenzie W K Chung (resigned during the year) M A Gannon (resigned during the year)
Radford Yarn Technologies Limited	P J Alston (appointed during the year) C A McKenzie W K Chung (resigned during the year) E C Radford (resigned during the year)

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 98 to 101.

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 102.

DISCLOSURES UNDER THE NEW ZEALAND EXCHANGE LISTING RULES

As at 31 July 2013

ANALYSIS OF SHAREHOLDINGS (LISTING RULE 10.5.5)

	Number of shareholders	%	Shares held	%
Size of shareholdings				
Up to 199	105	2.09	8,746	0.01
200 – 499	176	3.50	60,303	0.09
500 – 999	334	6.65	239,423	0.35
1,000 – 1,999	896	17.84	1,272,331	1.86
2,000 – 4,999	1,495	29.77	4,704,539	6.89
5,000 – 9,999	1,000	19.91	6,720,607	9.85
10,000 – 49,999	909	18.10	16,190,873	23.72
50,000 – 99,999	67	1.33	4,435,469	6.50
Over 99,999	40	0.80	34,631,566	50.73
	5,022	100.00	68,263,857	100.00
Location of shareholdings				
New Zealand	4,878	97.13	66,931,778	98.05
Overseas – Australia	80	1.59	964,524	1.41
– Others	64	1.27	367,555	0.54
	5,022	100.00	68,263,857	100.00

	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	6,196,226	9.08
Superlife Trustee Nominees Limited (SL NZ A/c)	1,115,141	1.63
Custodial Services Limited (A/c 3)	943,404	1.38
Masfen Securities Limited	787,500	1.15
Nortie Properties Limited	755,460	1.11
Forsyth Barr Custodians Limited (1-33)	553,253	0.81
Anthony Charles Timpson	420,732	0.62
Alan Michael James and Ann White James (JWJ Super Fund)	373,045	0.55
Custodial Services Limited (A/c 2)	370,837	0.54
Custodial Services Limited (A/c 4)	351,044	0.51
Warwick Bruce Norman & Averil Rosemary Norman & Linda Margaret Arbuckle & David Gloster Daniel (Paget Street Family A/c)	344,540	0.50
FNZ Custodians Limited	277,814	0.41
Investment Custodial Services Limited (A/c C)	270,050	0.40
J & D Sands Limited	250,000	0.37
Mary Dorcas Spackman	250,000	0.37
Custodial Services Limited (A/c 1)	235,199	0.34
Nicolaas Johannes Kaptein	235,000	0.34
Custodial Services Limited (A/c 18)	231,690	0.34
	31,602,889	46.30

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 2013 were:

	Shares held	%
Accident Compensation Corporation	3,320,128	4.86
New Zealand Superannuation Fund Nominees Limited	997,997	1.46
BNP Paribas Nominees (NZ) Limited	478,153	0.70
Newburg Nominees Limited	427,361	0.63
BNP Paribas Nominees (NZ) Limited	313,085	0.46
Citibank Nominees (New Zealand) Limited	295,917	0.43
National Nominees New Zealand Limited	165,932	0.24
JPMorgan Chase Bank NA	87,070	0.13
Private Nominees Limited	49,330	0.07
Courtenay Nominees Limited	21,000	0.03
HSBC Nominees (New Zealand) Limited	20,750	0.03
HSBC Nominees (New Zealand) Limited A/c State Street	19,503	0.03
	6,196,226	9.08

DIRECTORS' AND ASSOCIATED PERSONS' SHAREHOLDINGS

	30 JUNE 2013	
	Beneficial	Non-Beneficial
Shares[1]		
G C W Biel	–	8,528,762[3]
G S Hawkins	10,250[4]	–
S E F Haydon	10,000	–
A M James	373,045[4]	–
K L Thorpe	21,000	–
Rights under the Cavalier Corporation 2000 Executive Share Rights Plan[1, 2]		
C A McKenzie	220,000	–

1 W K Chung, who retired from the Board on 16 November 2012, had a beneficial relevant interest in 220,776 ordinary shares and 360,000 share rights (including those held by trusts of which he is a beneficiary) in the Company as at 30 June 2013.

2 A summary of the terms of the Plan is set out on pages 59 to 62 of this document (note 18 of the Notes to the Financial Statements).

3 Includes 61,120 held by associated persons.

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

DISCLOSURES UNDER THE NEW EXCHANGE LISTING RULES (continued)

DIVERSITY POLICY (LISTING RULE 10.5.5)

The Company does not have a formal diversity policy.

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

The following is a summary of the gender diversity within the Group as at 30 June 2013:

	Male	Female	Total
Board of Directors	5/83%	1/17%	6/100%
Officers[1]	5/100%	-	5/100%
Direct reports of officers	18/82%	4/18%	22/100%

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

DISCLOSURES UNDER THE SECURITIES MARKETS ACT 1988

As at 31 July 2013

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 2013 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
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 *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 MInstD, Dip.Wool&WoolTech.	Managing Director and Chief Executive Officer
K L Thorpe M.A. *Non-executive, Independent*	Member of Audit Committee Member of Remuneration Committee

CHIEF FINANCIAL OFFICER

P J Alston BBS, CA

COMPANY SECRETARY

V T S Tan CA, FCIS

FOUNDING SHAREHOLDER

The late **A C Timpson** ONZM

REGISTERED OFFICE

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

SHARE REGISTRAR

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

AUDITORS

KPMG

LEGAL ADVISORS

Minter Ellison Rudd Watts
Russell McVeagh

BANKERS

Bank of New Zealand
National Australia Bank Limited

CORPORATE DIRECTORY (continued)

CORPORATE

Managing Director and Chief Executive Officer	C A McKenzie
Chief Financial Officer	P J Alston
Company Secretary	V T S Tan
Group Financial Controller	L M Arbuckle

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	E C Radford

WOOL OPERATIONS

Elco Direct

General Manager	R P Cooper

Cavalier Wool Holdings

Chief Executive Officer	N R Hales

WEBSITES

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

THE PEOPLE BEHIND OUR BRANDS

Jerome Abelardo • Jared Adam • Pelenato Afoa • Derek Ainge • Dean Aitken • Terence Akroyd • Robbie Alabaster • Yvonne Allan • Wiki Alogi • Paul Alston • Malama Amituanai • Ualiu Anailiua • Lauren Andrews • Leo Antonio • Harry Aquino • Jason Araia • Linda Arbuckle • Nga Arere • Tangata Arioka • Mike Arlidge • Terry Arnott • Dale Arrowsmith • Melanie Ashe • Sopo Aso • Shaka Ataria • Kylie Austin • Jason Baek • Gerard Baillache • Scott Bain • Debbie Baker • Neville Baker • Tarsh Balderston • Robert Ballantyne • Kristen Barron • Brent Bayly • Jeff Bee • Shorty Beer • David Bell • Mina Bell • Damon Bennett • Ina Bennett • Wayne Bennett • Karl Berg • Anne-Maria Bergman • Valerie Beuvink • Murray Bezzant • Grant Biel • Basil Birch • Aegautulua Blakelock • Moonie Blane • Paul Blanken • Adam Blundell • Craig Boland • Margaux Bonne • Doug Bowen • Gerald Boyle • Jan Bradley • Josh Bradshaw • Betty Brass Tango • Jason Bristol • Michael Bristol • Min Bristol • Kerry Bromell • Andrew Brooks • Jordan Brooks • Alan Brough • Grace Brown • Stan Brown • Terrie Brown • Di Bryant • David Bryson • Josaia Buakula • Rossana Bueno • Simon Burgess • Michael Burn • Kevin Burney • Anthony Burnham • Steven Bustamante • Ronnie Campbell • Doug Carlson • Grant Carson • Scott Cary • Ritchie Cassin • Juan Castillo • Juan Alejandro Castillo • Graeme Catt • Caroline Challis • Dean Chandler • Cindy Chaplow • Paul Chaplow • Craig Chapman • Tangi Charlie • MJ Chase • Joe Chau • Teufolau Cherrington • Que Chieng • Greg Chinnery • Sophia Chinnery • Raymon Chooi • Stephen Christensen • Michelle Christison • Craig Cini • David Clark • Kingsley Clark • Garth Clarke • Jodie Clarke • Lance Colello • Jim Comp • Lyn Comp • Edward Connell • Neil Cook • Renee Cooper • Ron Cooper • Sheryl Cooper • Venessa Cooper • Maria Corby • Dale Cornish • Stewart Cornor • Joyce Cosentino • Kirsty Courtney • Allan Crawford • Steven Crawford • James Crawley • Tafaipaia Crichton • Shelley Crosato • Lufi Cubitt • Natalie Cudmore • 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Fualau • Angelo Gaggiano • Stephen Garlick • Ben Garnham • Joe George • Gail Gill • Rosina Gill • Stuart Gill • Allan Gilling • Kim Gilmore • Robert Ginns • Liz Godfrey • Denise Goldsack • Warren Goodman • Glenys Goodwin • Darren Gore • Navin Goundar • Kaliamma Gounder • Satya Gounder • Alan Graham • Richard Grant • Alwyn Grantham • Jeremy Gray • Samuel Green • Gary Griffiths • Kevin Grime • Margaret Haami • Paul Haami • Hayley Hadj • Alison Haerewa • Dezma Haimona • Michelle Halapio • Graeme Hall • Roger Hall • David Hancock • Kristian Hansen • Tamsyn Hansen-Hill • Russell Harding • Robert Haren • Kevin Harkin • Graeme Harley • Aarron Harris • Brent Harrison • Sally Harrison • Steve Hart • Simon Hartley • Douglas Hastings • Pauline Hatch • Nga Haunga • Karena Hawea • Courtney Hawker • Graeme Hawkins • Jonathan Hawkins • Sarah Haydon • Jenna Hayward • Caroline Hazel • Dan Healey • Benjamin Heap • Michael Heath • Sally Heka • Hariata Henare • James Hetaraka • Darren Hewitt • Reuben 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