CAVALIER
CORPORATION

Annual Report 2016

We've done the hard yards and made big calls. None were easy, but they were necessary.

The direction is clear and our Company is now completely aligned and focused on core business. The benefits are starting to show. However, there is still much to be done and many challenges lie ahead. But we're in the best shape to meet them.

This Annual Report is dated 19 September 2016 and is signed on behalf of the Board of Directors by:

Sarah Haydon Chairman	Steve Bootten Director

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

Contents

Click on the list above to navigate through this document

→ Return to contents page

Year in Review

Revenue

$190m

Compared with previous year's $215 million – with the **$25 million/12% reduction** due to $33 million of revenue foregone from sale of carpet tile operation, offset by increases in broadloom carpet, wool and yarn revenues.

Normalised earnings after tax

+425%

Five-fold increase from $1.2 million the previous year to **$6.3 million** largely as a result of the sale of loss-making carpet tile operation and improved performance by broadloom carpet business.

Net profit after tax

$3.1m

$3.1 million, following one-off costs and impairment of plant arising from consolidation of manufacturing operations and other restructuring costs, offset by a one-off gain from sale of non-core property.

Net interest-bearing debt

-32%

$17.4 million/32% decrease in net interest-bearing debt from $53.9 million to $36.5 million, attributable to the debt reduction programme. **Net interest-bearing debt : equity** improved from 45:55 to **34:66** and **equity ratio** from 39.1% to **47.1%** as a consequence.

Strategic initiatives and outlook

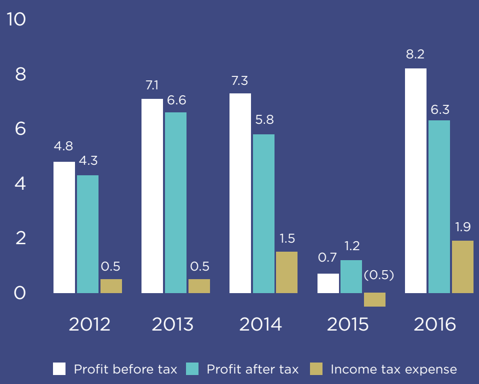
Reduced debt

Reduced debt to ensure business is financially sound and allow us vital headroom to invest in our core business. Took tough, but essential, steps to **right-size the business** and **reduce our cost base**.

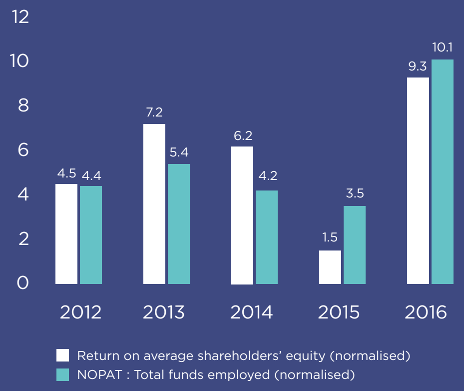
Repositioned Cavalier Bremworth

Repositioned the Cavalier Bremworth brand through the new *World of Difference* campaign to a contemporary lifestyle brand, sharpening up our product offerings through innovation and quality and boosting customer experience and industry engagement.

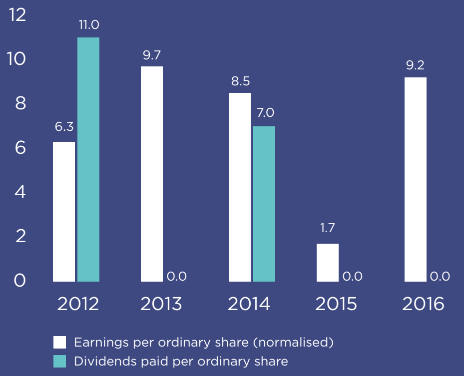
Financial results (normalised)[1]
$ millions



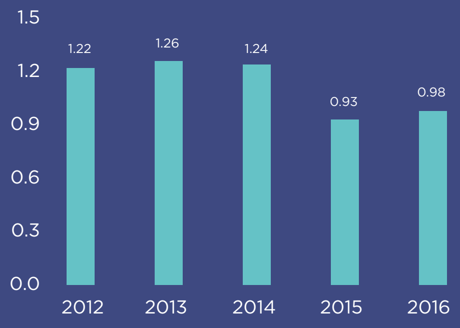
Return on average shareholders' equity and NOPAT : Total funds employed[1]
Percentage



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

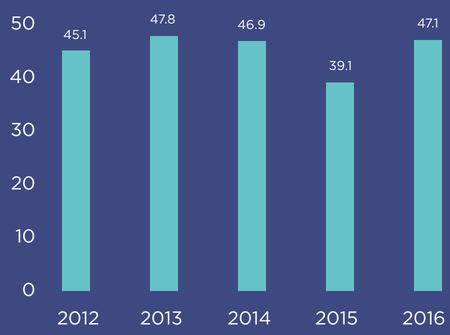


Net tangible asset backing per ordinary share
$



Total assets employed and Shareholders' equity
$ millions

Equity ratio
Percentage



[1] All references to "normalised" are to the normalised results used in the underlying calculations. Normalised is a non-GAAP (Generally Accepted Accounting Practice) measure. A reconciliation between reported and normalised can be found on pages 77 and 78 of the Annual Report.

Sarah Haydon

Chairman

Paul Alston

Chief Executive Officer

Chairman and Chief Executive Officer's Report

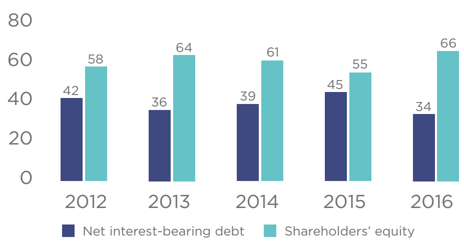
In the 2016 financial year Cavalier Corporation continued the programme to transform its business and return to a profitable position.

We have strengthened the balance sheet, lifted profits, reduced debt and re-organised the business to better respond to changing consumer trends. This has resulted in a net profit after tax of $3.1 million and a normalised profit after tax of $6.3 million.

Completed initiatives and highlights of the year include:

- **Sale of Australian based carpet tile business** This business was loss-making for Cavalier with a product in a shrinking segment of the market and increased competition from cheaper imported alternatives. Significant capital investment would have been required to improve the manufacturing operation with no guarantee of a return on investment. The sale of this operation enabled Cavalier to exit without significant shut down costs and free up cash previously tied up in working capital.
- **Sale of Sydney based warehouse** – Cavalier's Sydney warehouse had limited reconfiguration options and was in an area with an increased residential presence. It was therefore more cost effective to sell the property, out-source logistical operations and reduce the Company's debt position.
- **Restructure of New Zealand administration and sales teams** – To increase productivity and reduce cost, a full restructure of the New Zealand based administration and sales teams was undertaken. Duplication was addressed with the amalgamation of the Norman Ellison and Cavalier Bremworth sales teams, with all sales people now selling the full product range.
- **Management team** – A new management team was put in place following the restructure of the business and we now have the capability and capacity to take the business into the future.

Net interest-bearing debt : equity ratio



Initiatives in progress include:

- **Spinning rationalisation** – Consolidation of Cavalier's woollen yarn spinning operations has commenced and is expected to be completed before the end of 2016. This initiative is critical to futureproof the business and increase profitability. Savings will be significant with a pay-back that will take a little over a year to realise. The full benefits of the consolidation impact profitability in the 2018 financial year.
- **Product innovation** – Through its hero brand Cavalier Bremworth the business recently launched three exciting new carpet ranges. Two of these are synthetic and have unique fibre strength and sustainability stories, the other provides greater choice in our high quality wool range. These new ranges have taken over a year to develop and are part of the market reinvigoration of Cavalier Bremworth.
- **Cavalier Bremworth - A World of Difference** – Cavalier Bremworth is being aligned to its target market and positioned as a lifestyle brand. In addition to innovative new products, an extensive marketing campaign including new television commercials, websites and cutting edge retail display units have been developed. These initiatives will drive growth in our core broadloom business.
- **Manufacturing efficiency** – In order to increase efficiencies in manufacturing Cavalier has implemented the Kaizen methodology to tufting operations, with plans to extend this into spinning operations in the 2017 financial year. Kaizen is a continuous improvement strategy to engage staff in working together and problem solving to take ownership of increasing efficiency and productivity in their particular areas of responsibility.

As part of our strategic plan other initiatives are also in play to strengthen the Company's culture and invest in people.


130

Chairman and Chief Executive Officer's Report continued

Group operating results

	2016 $000	2015 $000	Change
Revenue	**$190,371**	**$215,728**	**(12%)**
Earnings before interest and tax (Normalised) [1]	8,923	2,655	
Interest	(3,374)	(3,948)	
50% share of CWH profit after tax (Normalised) [1]	2,670	2,034	
Profit before tax (Normalised) [1]	8,219	741	
Income tax	(1,906)	454	
Profit after tax (Normalised) [1]	**6,313**	**1,195**	**428%**
Impairment of assests	(1,573)	(25,679)	
Restructuring costs	(3,660)	(1,231)	
Gain on sale of property	2,035	0	
Profit after tax (Reported)	**$3,115**	**($25,715)**	
Earnings per share (cents) (Normalised) [1]	**9.2**	**1.7**	
Earnings per share (cents) (Reported)	**4.5**	**(37.4)**	

[1] Normalised is a non-GAAP (Generally Acccepted Accounting Practise) measure. Further commentary on the disclosure of non-GAAP financial information can be found on pages 77 and 78 of the Annual Report.

The main features of our June 2016 result were:

- Normalised profit after tax of $6.3 million compared to $1.2 million in 2015, a $5.1 million increase.
- Reported net profit after tax of $3.1 million, up from the $25.7 million loss recorded in 2015 when there were significant restructuring cost and write-downs of non-performing assets.
- Total revenue decreased 12% from the prior year. This is due largely to the revenue lost following the sale of the tile making business in early 2016. Excluding the tile business, total revenue was up 5%.
- Net restructuring costs of $3.2 million after tax.
- Dividends of $4.3 million received from 50% investment in wool scouring operation, Cavalier Wool Holdings (CWH).
- A $17.4 million reduction in net debt to $36.5 million.
- Capital expenditure of $2.1 million.

Carpets

Cavalier is first and foremost a carpet company. It is therefore very encouraging to see improvement in the performance of our core business in the 2016 financial year.

The segment result (before net restructuring costs) of $8.7 million was up 285% on last year (off a low base) despite volumes being largely unchanged.

This was driven by the sale of the tile business and restructuring and management changes.

The consolidation of spinning operations will further improve the performance of the carpet segment in future years as will the drive for further efficiencies in manufacturing.

At a customer level the product innovations and marketing focus outlined above will continue to evolve to drive future sales growth.

Moving forward the dual strategy for Cavalier includes making the best wool carpet available and also providing innovative synthetic options.

Wool Acquisition

Cavalier's wool procurement business, Elco Direct had another strong year and at the third quarter mark was on track to make a record profit. Unfortunately in the last quarter of the financial year the wool market collapsed, with fall off in demand from China and Europe.

While the falling wool price is of benefit to the woollen carpet side of the business, it resulted in Elco Direct being forced to exit some stock at lower than anticipated margins.

Elco Direct revenue increased 6.5% from last year but profit reduced by 17.0%.

Cavalier would also like to acknowledge the passing of Elco Direct General Manager Ron Cooper this year. Ron contributed greatly to the development of the business over many years.

Chairman and Chief Executive Officer's Report continued

Our 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.
	Hawkes Bay Woolscourers / Canterbury Woolscourers	**Cavalier Wool Holdings:** 50%-owned business providing commission wool scouring for the wool exporting industry and the Group's woollen carpet operations.
Yarn and broadloom carpets	Radford Felted Yarn New Zealand	**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.

Felted Yarn Operation

The Radford felted yarn operation sells approximately 60% of what it produces internally and because these products are marginally costed its profitability is not a true reflection of what it contributes to the Group. The yarns it produces are unique to Cavalier which gives us a point of difference and an advantage over our competitors. We are also looking to further grow this business outside of New Zealand.

While total revenue improved from the prior year by 10%, Radford's profit of $222,000 was down $336,000 from the prior year due to higher input costs.

This operation is in the process of being relocated to Cavalier's Wanganui site which has more space, is closer to the wool it needs and will avoid the large factory lease costs in Christchurch.

Wool Scouring

Cavalier's share of earnings from the 50% investment in the commission wool scouring business CWH was a solid $2.2 million, up 47.4% from the prior year. The result in both years would have been more if it were not for the large legal and consultancy costs associated with the continued appeals against the proposed merger with NZ Wool Services International. Cavalier's share of these costs was $438,000 and $520,000 the prior year.

Sheep numbers continue to decline in New Zealand, further highlighting the need to merge the remaining two New Zealand wool scouring businesses. The High Court appeal was rejected in June and a further appeal to the Court of Appeal is scheduled to be heard in September. We are expecting a decision before the end of December 2016.

Wool grease prices have remained relatively low with the growing volume produced in China greatly influencing the price of wool grease in the world market. We are continuing to look for ways to differentiate our product to avoid commodity pricing – being produced in New Zealand assists with this story.

Health and Safety

Cavalier Corporation is a large employer of people and many activities within the business involve moving machine parts and manual handling. The Board and senior management are committed to keeping our work places and people safe. We have invested considerable resource to review all of our health and safety policies and practices, employing experienced external advisors to ensure we implement best practice safety standards. All our people have been engaged and involved in this process.

Dividends

The Directors advised at the November 2015 Annual Meeting of shareholders that dividends will resume once we are in a position to confirm an ongoing improvement in underlying performance and have our debt firmly under control.

While very good progress has been made, we need to complete the transformation and realise the benefits of the investments we are making now for our long term future. The NZD:AUD exchange rate also remains at close to its all-time high, a significant concern to Cavalier as an exporter.

As a consequence no dividend will be paid for the 2016 financial year.

Outlook

The outlook for 2017 is positive. There is still much to be done to realise the potential of the business but we now have the building blocks in place.

To realise growth into 2017 the Company will continue to focus on its core broadloom business and within that,

→ Return to contents page

its hero brand Cavalier Bremworth. Our customers can expect more from Cavalier Bremworth in every sense. It is our expectation that it is through delivering to our customers we can better deliver to our shareholders.

The significant investment in innovative new products and the repositioning of Cavalier Bremworth into a lifestyle brand is all about modernising the brand and reinvigorating its appeal to our core target market.

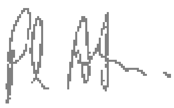
Earnings guidance will be provided to shareholders at the Annual Meeting in November when we have a few months trading completed. In the interim we would like to reiterate that the outlook for the business is positive.

Acknowledgements

At the end of March 2016, Graeme Hawkins retired from the Board. Graeme had a long history with the Company, joining the Board in 1998 and serving as Chairman of the Board's Audit Committee since 2010. The Board would like to record its appreciation to Graeme for his insight, experience and contribution to the Company over many years.

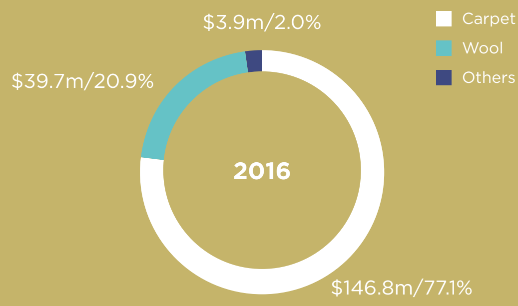
It has been a very busy year and there have been substantial changes in the business from a structural and personnel point of view. The Board and management would like to thank the staff at Cavalier for their hard work, passion for the Company and continued commitment. We would also like to acknowledge the on-going support of our customers and shareholders.

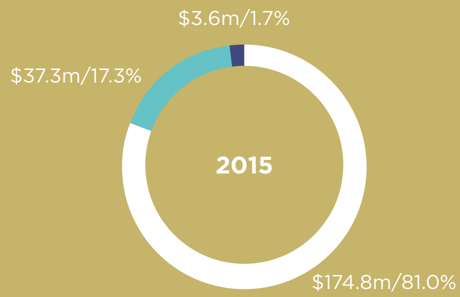
Sarah Haydon
Chairman
19 September 2016



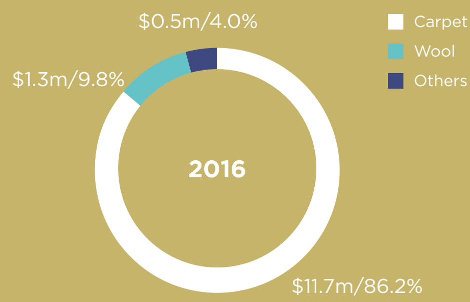
Paul Alston
Chief Executive Officer

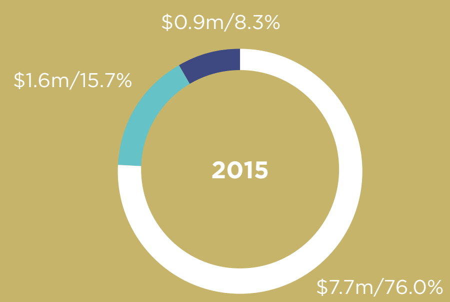
Contribution to Group operating revenue





Segment result before interest, tax, depreciation and net restructuring costs





→ Return to contents page

In 2015, Cavalier completed a comprehensive strategic review covering every aspect of its business, identifying and considering in the process a wide range of options to improve performance.

We prioritised a number of initiatives and while some have been completed, others are in progress or being developed. This is currently where we are at.

1

Strengthening the balance sheet for sustainable growth

We needed a stronger balance sheet

- We exited the loss-making Australian based carpet tile making business
- We sold a prime, but non-core, property based in Sydney
- We have reduced debt to ensure the business is financially sound and allow us vital headroom to invest in our core business.

2

Refocusing on core business

We identified that investment and the reinvigoration of the Cavalier Bremworth brand was essential for the future growth of the business

- We have repositioned the Cavalier Bremworth brand through the new World of Difference campaign to a contemporary lifestyle brand
- We are sharpening up our product offerings through innovation and quality
- We have redefined the customer experience and refreshed our industry engagement.

→ Return to contents page

3

Reducing our cost base

We took tough, but essential, steps towards right-sizing the business, while creating a culture that is focused on productivity and continuous improvement

- We have restructured our New Zealand sales and support functions
- We are in the process of consolidating our carpet yarn spinning operations
- We have introduced Kaizen into our manufacturing operations as part of our focus on productivity and continuous improvement.

4

Changing the way we do things

We recognise that we need buy in from staff to support our vision and transform the business

- We have embarked on an inside-out approach to drive success in the business
- We have identified that our people are eager to help us grow and succeed
- We are in the process of co-creating our new vision and values that will be the building blocks of who we are and what we need to do to support our vision and strategy.

Cavalier Goes Kaizen

It's cohesive, it's empowering, and it's focused on productivity. Cavalier employees are aligned, interconnected and engaged in a culture of continuous improvement.

It's called Kaizen, and it's delivering excellent results.

The architect of Kaizen at Cavalier is Process Improvement Manager, Ferdinand Esclamado, or Ferdie to everybody who has come to know him since he started back in January 2016. We caught up with Ferdie to ask him about Kaizen.

What is Kaizen?

Kaizen is Japanese meaning 'change for the better'. It's a tool and an approach that comes from the global philosophy of 'Continuous Improvement' - one that Japanese companies pioneered to achieve manufacturing supremacy over the last 40 years and is now used by many international and New Zealand companies. You may have heard of tools like TQM (Total Quality Management), Quality Circle or Lean Six Sigma. It's like that, only different.

Which other companies have adopted Kaizen?

The masters of Kaizen would be Toyota. But there's also Sony, Honda, Canon – some of the big well-known names in Japanese industry. Globally, we have Nike, General Electric and Ford, while New Zealand examples include Comvita, Fletcher Building, Fisher & Paykel Healthcare and Air New Zealand.

So what makes Kaizen different?

Its main difference is in engaging everyone across the business, especially the employees that work the machines on the factory floor. So while Western methods tend towards an engineering-led, management-only scrutiny of operations, Kaizen relies on cross-functional teamwork.

One of the most notable features of Kaizen is that big results come from many small changes effected over time. However, this can be misunderstood to mean that Kaizen equals small changes. In fact, Kaizen is all about everyone involved in making improvements.

Sounds like Kaizen's more rooted in organisational culture?

It is. In fact, I'd say it is a culture tool first – otherwise it would not be sustainable. Once you have achieved a healthy inclusive culture, the improvements in processes will follow. You also need positive engagement from everyone for the tools to work.

"Communication between floor staff and management is much better now."

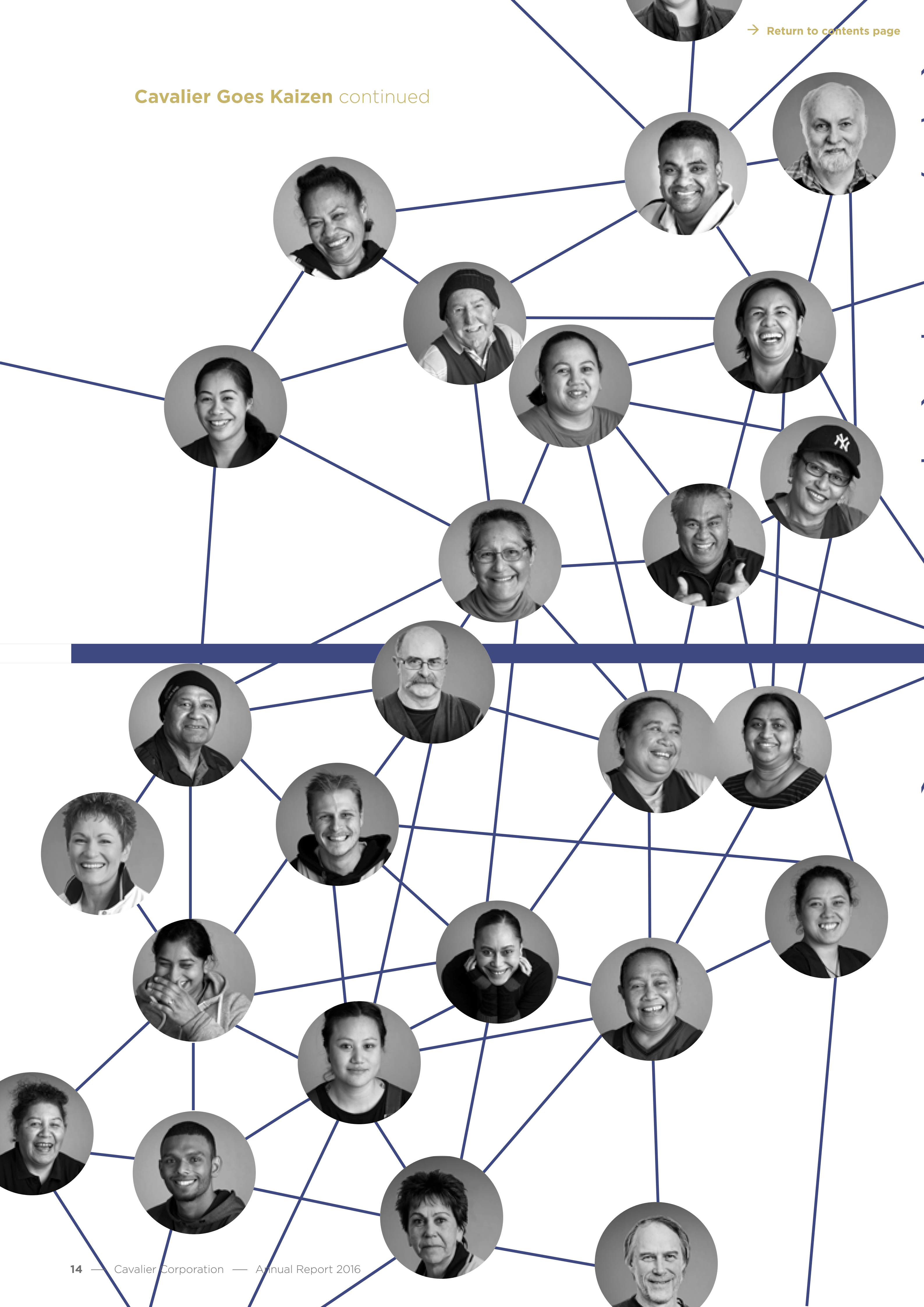
Taylor Namulau'ula

Ferdinand Esclamado
Process Improvement Manager

230

‘Just Do It’ ideas

Cavalier Goes Kaizen continued



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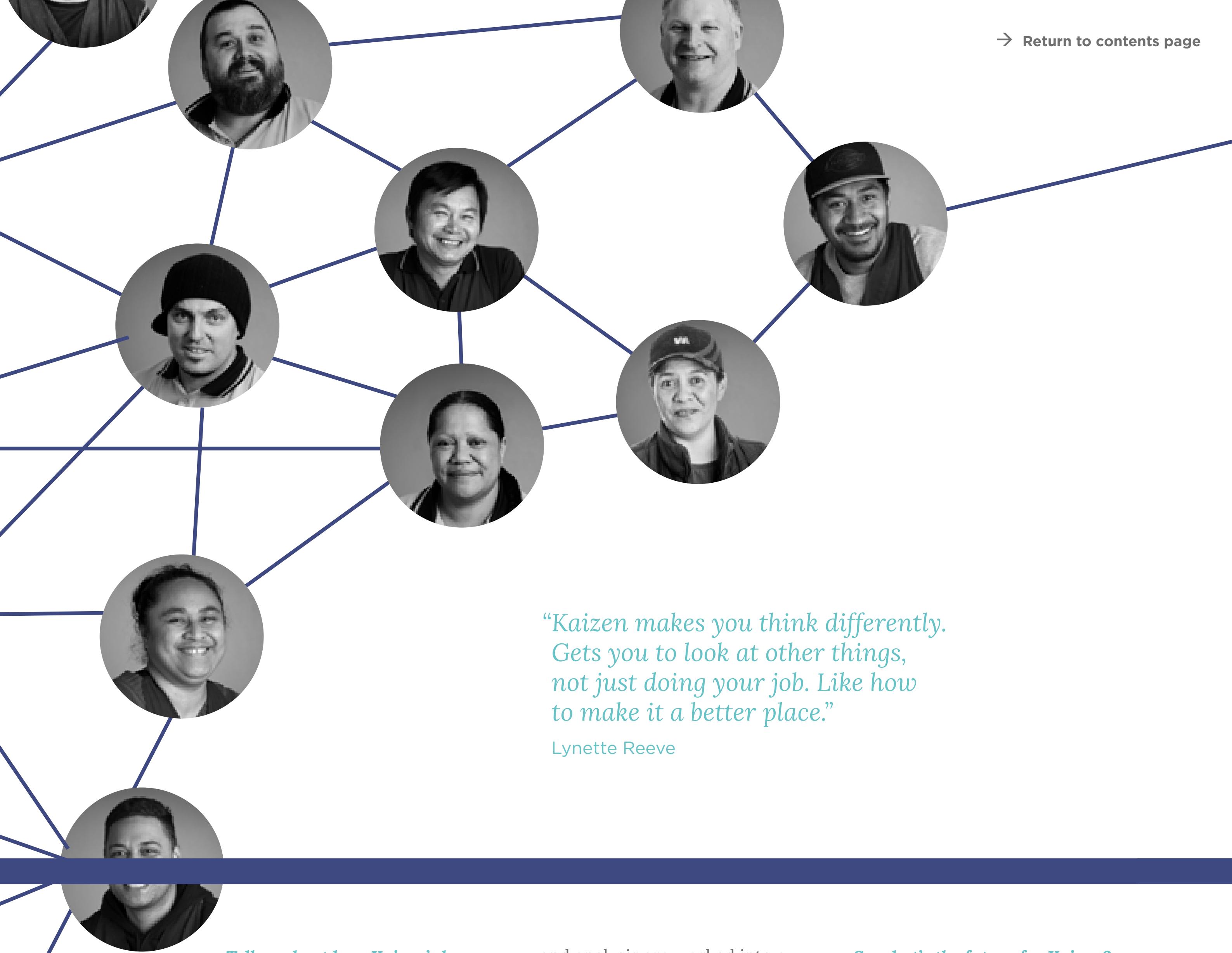


"Kaizen makes you think differently. Gets you to look at other things, not just doing your job. Like how to make it a better place."

Lynette Reeve

Tell us about how Kaizen's been introduced at Cavalier and what tools are being used.

There are many tools within Kaizen. After completing an information drive, we put together nine Kaizen teams of workers from across Cavalier's three shifts at its South Auckland carpet plant and introduced them to two basic Kaizen tools: 'Just Do It' and 'Kaizen Events'.

Just Do It encourages individual team members to identify problems they encounter in our operation or in their job and to suggest improvements or solutions. Just Do It problems can generally be fixed relatively quickly and simply without too much discussion.

Kaizen Events are where teams meet to brainstorm the more challenging problems and seek out opportunities to address these. The Kaizen Team Leader lists the ideas, some of which could be Just Do It initiatives, while the ones requiring further discussion and analysis are worked into a presentation for management consideration.

How is it going so far? Any results?

It is very encouraging. We have had 230 Just Do It ideas and been able to process 216 of them. As for the bigger, more involved Kaizen Events we have so far completed 22 big initiative events – addressing not just production efficiency but health and safety around the factory as well.

Then there is the way everybody has engaged in the process and embraced the Kaizen 'Continuous Improvement' philosophy. The way they not only think about their work, but also how they can contribute to the overall performance of the company and their work environment is particularly encouraging.

Individuals have also discovered skills and abilities that they didn't appreciate they had, or that they didn't think could be important in their working lives.

So what's the future for Kaizen?

Kaizen is about continuous improvement and I emphasise the word continuous. That goes for the training, coaching, communication and recognition. Right now we are in the early stages of Kaizen. There are still many more tools that we will be able to introduce when the time is right. Each will play its part in helping us to identify further areas of improvement in processes and efficiency. If we bring in too many tools too soon then Kaizen could easily prove overwhelming for people. So it is all about taking a measured and strategic approach.

We will, of course, be looking to roll out Kaizen at our yarn spinning plants in Napier and Wanganui and I look forward to seeing people grow and channel their enthusiasm into making work a happier and more productive place.

An Inside-Out Approach

A business transformation, and the culture change that it requires, isn't just executed on the balance sheet or in the boardroom. Ultimately it requires buy in from staff. Cavalier Corporation is therefore also taking an inside-out approach to driving success in the business – whether that be the way our people interact with each other and with our customers or contribute towards creating a safe and great place to work.

We have identified through a series of listening sessions and internal workshops that our staff are exceptionally proud of the quality product we produce and a work place that values diversity and cares for their wellbeing. But they are eager for more. They want to be better enabled to help us grow and succeed. They have asked for better communication and are keen for the business to adopt a values based culture.

We are therefore in the process of co-creating with staff our new vision and values. Our new values will form the building blocks of who we are and how we like to work. They will be our guiding principles and once defined we will be looking over the next year at ways we can bring these to life.

Values and culture also go hand in hand with communication. Over recent months we've been working to engage more with staff and keep them informed and up to date about what's going on. This has been very positively received, but there is certainly room for development in this area, so we are currently working with staff to get their input on the development of a new internal communications framework.

On the communications front we've also upped our game externally to ensure our shareholders and customers are better informed. Pleasingly we've experienced some great media coverage as a result – especially around our Cavalier Bremworth re-launch activity.

It is our belief that success can be driven from the inside out in what is truly a unique New Zealand business. Many of our staff have been with us for long periods of time, they love what they do and they are keen to contribute more to our future. We are excited about the process we are undertaking to enable this to happen.

Innovating for Sustainability

One of the most unique and interesting developments this year for Cavalier Bremworth has been the launch of the new solution dyed nylon range Siren. Siren uses the world's first fully sustainable nylon 6 fibre, Econyl, which is made from recycled fishing nets, carpet and other recycled nylon 6.

Aquafil, the Italian company who make Econyl, invested 25 Million Euros and four years in the research and development process to produce this waste positive fibre. They now even assist in the recovery of fishing nets from the oceans to input into the process.

Aquafil Board Member and General Manager Fabrizio Calenti says Econyl was at first a challenging concept for the company but the vision is now paying off for them and the planet.

"The sustainability of the Econyl product will contribute to the value proposition of Cavalier's beautiful carpets."

Econyl is now being used in collaborations with brands like Levi's, La Perla, Speedo, World Champion surfer Kelly Slater's new Outerknown range and now Cavalier Bremworth's Siren carpet range.

Cavalier Corporation CEO Paul Alston says acquiring the exclusive rights to use Aquafil's Econyl fibre was a coup for the Company.

"Customers care about quality, they care about customer service and increasingly they care about the environmental story behind what they are buying.

"We applied all of our carpet expertise to this product, not only is it sustainable, it's luxurious and of very high quality, just what you can continue to expect from Cavalier Bremworth."

A world of difference

Reinvigorating the Cavalier Bremworth brand

Cavalier Bremworth is Cavalier Corporation's hero carpet brand. It is a brand that is synonymous with quality and trust. At the beginning of 2016 it was also a brand that wasn't leading the market like it used to.

Cavalier Corporation had identified that investment and the reinvigoration of the Cavalier Bremworth brand was essential for the future growth of the business.

In August 2016 Cavalier Bremworth's new World of Difference positioning was launched. A World of Difference isn't just a new tag line. It is representative of how Cavalier Corporation intends to do things differently, positioning Cavalier Bremworth as a lifestyle brand in order to better connect with customers.

Wool
Nature's miracle fibre, keeping you warm in winter and cool in summer. Wool carpets are non-allergenic, fire resistant and naturally control moisture, creating a warm, dry and healthy home.

→ Return to contents page

Valour
Our most durable solution-dyed nylon carpet, made from fibre using 30% reclaimed synthetic materials, with brilliant colour and outstanding stain protection engineered into every single strand.

→ Return to contents page

Siren
Created with a 100% regenerated fibre made entirely from recycled synthetics, including fishing nets recovered from oceans throughout the world. It's resilient, easy to clean and holds its colour beautifully.

A World of Difference continued

The newly positioned Cavalier Bremworth brand draws on its heritage cues of quality and trust but is also moving strongly into the future reprising its role as the innovator of the carpet category.

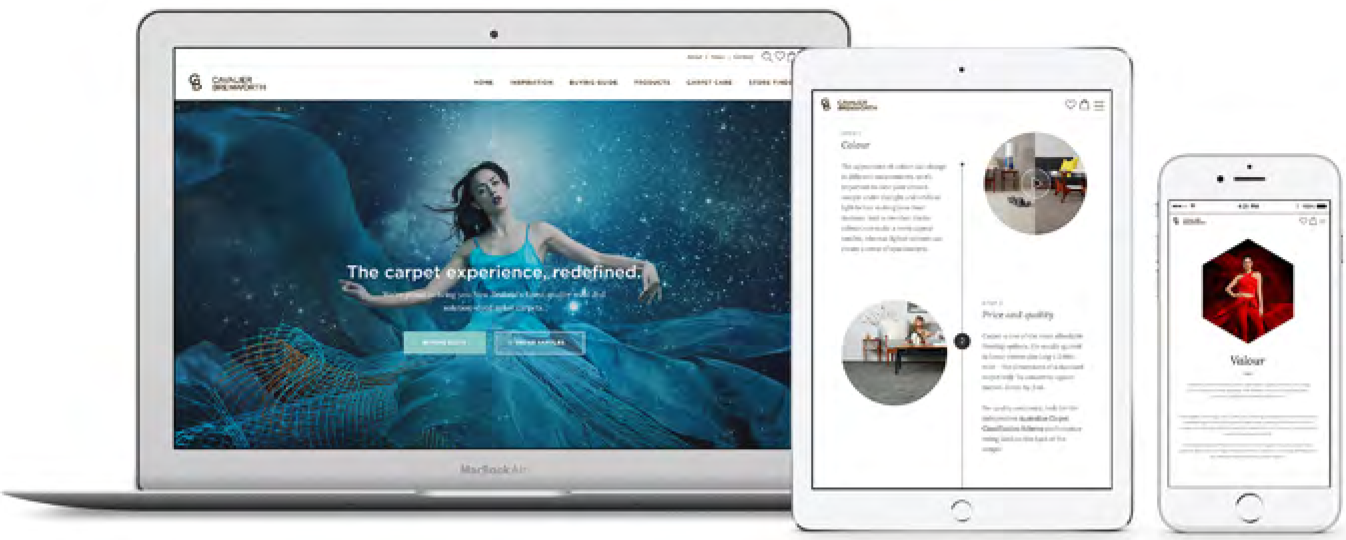
Cavalier Bremworth has re-launched with three exciting new carpet ranges, two in the solution dyed nylon space that have properties unique to the segment as well as a new wool product.

The new Siren range is made using Econyl which is the only fully sustainable solution dyed nylon 6 fibre in the world. Econyl is comprised of 100% recycled nylon. Cavalier Corporation has the exclusive residential rights to this yarn in Australasia.

The new Valour range uses a specially developed solution dyed 6,6 nylon. Valour is the toughest of the tough – with a softer side. That's because its i-Twist fibre is very resilient and yet still soft to touch. It also has strong sustainable properties.

And while Cavalier Bremworth is diversifying into unique synthetic options, it's also important to note the ongoing importance of what Cavalier Bremworth is known for - making high quality wool carpet right here in New Zealand. Hence the introduction of another impressive new wool product Jive. Jive is warm, soft and made of New Zealand's very own miracle fibre – wool.

Cavalier Bremworth is focused first and foremost on its customers.



Cavalier Bremworth has also completely revamped its marketing presence with a new brand ad and three shorter supporting commercials that tell each of the fibre stories; Siren, Valour and wool. In addition to this activity new websites have been launched, the way we engage with our customers has been mapped and improved, and new cutting edge retail display units developed.

Customers can now expect to see Cavalier Bremworth in places they wouldn't normally, from photo shoots in Fashion Quarterly to a compelling presence on social media.

This is all about driving change in the carpet category and repositioning Cavalier Bremworth, an iconic New Zealand brand, focused first and foremost on its customers.

Cavalier Bremworth, A World of Difference – made in New Zealand.

Customers can now expect to see Cavalier Bremworth in places they wouldn't normally, from photo shoots in Fashion Quarterly to a compelling presence on social media.

→ Return to contents page

Board of Directors

From left to right: John Rae, Sarah Haydon, Steve Bootten, Dianne McAteer, Grant Biel

G C W (Grant) Biel

B.E. (Mech.)

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

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

S R (Steve) Bootten

ACA, FCIS, FCIM, MInstD

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

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

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

S E F (Sarah) Haydon

B.Sc., ACA, CMInstD

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

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

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

D V (Dianne) McAteer

B.Com., MBA, CMInstD

Dianne McAteer is an independent Director and joined the Cavalier Board in July 2015. She is also a member of the Board's Audit, Remuneration and Nomination Committees.

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

She is currently Chairman of Beds R Us, Northern Netball Zone and the Northern Mystics netball franchise and a director of Chartered Accountants Australia New Zealand, Kitchen Studio Distribution Limited, World Masters Games 2017 Limited and West Auckland Trust Services Limited.

J M (John) Rae

B.Com., LLB

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

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

He is an experienced company director, currently Chairman of Smart Environmental Limited, The National Infrastructure Advisory Board and Activate Tairawhiti Limited and director of Eastland Group, NZ Council for Infrastructure Development, The Lines Company Limited and Ngapuhi Asset Holding Company Limited.

Financial Statements

For the year ended June 2016

Click on the list above to navigate through this document

→ Return to contents page

Directors' Responsibility Statement

CAVALIER
CORPORATION

DIRECTORS' RESPONSIBILITIES

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

ACCOUNTING POLICIES

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

ACCOUNTING RECORDS

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

SAFEGUARDING OF ASSETS AND INTERNAL CONTROLS

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

FINANCIAL STATEMENTS

The Directors are pleased to present, on pages 28 to 72, the Group financial statements for the year ended 30 June 2016.

These financial statements were authorised for issue by the Directors on 26 August 2016 and, as required by section 461(1)(b) of the Financial Markets Conduct Act 2013, are dated and signed as at that date.

For and on behalf of Cavalier Corporation Limited

S E F Haydon
Chairman of the Board of Directors

S R Bootten
Director

Independent Auditor's Report

KPMG

TO THE SHAREHOLDERS OF CAVALIER CORPORATION LIMITED

We have audited the accompanying consolidated financial statements of Cavalier Corporation Limited and its subsidiaries ("the Group") on pages 28 to 72. The financial statements comprise the consolidated statement of financial position as at 30 June 2016, the consolidated income statement and consolidated 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.

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

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible on behalf of the company for the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements 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 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 consolidated financial statements.

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

Our firm has also provided other services to the Group in relation to transfer pricing tax advice and scrutineering at the Group's Annual Meeting of shareholders. Subject to certain restrictions, partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. These matters have not impaired our independence as auditor of the Group. The firm has no other relationship with, or interest in, the Group.

OPINION

In our opinion, the consolidated financial statements on pages 28 to 72 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the consolidated financial position of Cavalier Corporation Limited as at 30 June 2016 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

KPMG.

26 August 2016
Auckland

Income Statement

For the year ended 30 June 2016

	Notes	2016 $000	2015 $000
Revenue	3c	190,371	215,728
Cost of sales		(150,120)	(168,205)
Gross profit		**40,251**	**47,523**
Other income and gains/(losses)	3d	4,308	(2)
Distribution expenses		(24,665)	(34,316)
Administration expenses	3e	(6,658)	(10,550)
Impairment of carpet tile business assets	5a, 6c	–	(12,896)
Impairment of fixed assets	5a	(2,184)	(6,033)
Impairment of intangible assets		–	(5,432)
Restructuring costs		(4,507)	(988)
Results from operating activities		**6,545**	**(22,694)**
Net finance costs	3g	(3,374)	(3,948)
Share of profit of equity-accounted investee (net of income tax)	8a	2,232	1,514
Profit/(Loss) before income tax		**5,403**	**(25,128)**
Income tax expense	3h	(2,288)	(587)
Profit/(Loss) after tax for the period		**$3,115**	**$(25,715)**
Basic and diluted earnings per share (cents)	3b	**4.5**	**(37.4)**

This statement is to be read in conjunction with the notes on pages 35 to 72.

Statement of Comprehensive Income

For the year ended 30 June 2016

	Note	2016 $000	2015 $000
Profit/(Loss) after tax for the period		**3,115**	**(25,715)**
Other comprehensive income that may be reclassified subsequently to profit or loss			
Effective portion of changes in fair value of cash flow hedges		(443)	(1,360)
Net change in fair value of cash flow hedges transferred to profit or loss		367	(1,257)
Income tax on changes in fair value of cash flow hedges	3h	22	731
Share of fair value of cash flow hedges (net of tax) of equity-accounted investee	8a	256	(227)
Foreign currency translation differences for foreign operations		(140)	1,079
		62	**(1,034)**
Other comprehensive income not reclassified subsequently to profit or loss			
Changes in amounts payable to non-controlling interests		–	(26)
Other comprehensive income for the period, net of income tax		**62**	**(1,060)**
Total comprehensive income for the period		**$3,177**	**$(26,775)**

This statement is to be read in conjunction with the notes on pages 35 to 72.

Statement of Changes in Equity

For the year ended 30 June 2016

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

This statement is to be read in conjunction with the notes on pages 35 to 72.

→ Return to contents page

Statement of Changes in Equity continued

For the year ended 30 June 2016

	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 2014		$21,846	$942	$(2,364)	$1,448	$71,087	$92,959
Total comprehensive income for the period							
Profit/(Loss) after tax		–	–	–	–	(25,715)	(25,715)
Other comprehensive income that may be reclassified subsequently to profit or loss							
Changes in fair value of cash flow hedges (net of tax)		–	(1,886)	–	–	–	(1,886)
Share of fair value of cash flow hedges (net of tax) of equity-accounted investee	8a	–	(227)	–	–	–	(227)
Foreign currency translation differences for foreign operations		–	–	1,079	–	–	1,079
		–	**(2,113)**	**1,079**	**–**	**–**	**(1,034)**
Other comprehensive income not reclassified subsequently to profit or loss							
Changes in amounts payable to non-controlling interests		–	–	–	–	(26)	(26)
Total other comprehensive income		**–**	**(2,113)**	**1,079**	**–**	**(26)**	**(1,060)**
Total comprehensive income for the period		**–**	**(2,113)**	**1,079**	**–**	**(25,741)**	**(26,775)**
Transactions with owners, recorded directly in equity							
Dividends paid to equity holders of the Company		–	–	–	–	–	–
Transfer on expiry of executive share rights		–	–	–	–	–	–
Total equity at 30 June 2015		**$21,846**	**$(1,171)**	**$(1,285)**	**$1,448**	**$45,346**	**$66,184**

This statement is to be read in conjunction with the notes on pages 35 to 72.

Statement of Financial Position

As at 30 June 2016

	Note	2016 $000	2015 $000
ASSETS			
Property, plant and equipment	5a	36,820	47,910
Goodwill	5c	2,362	2,362
Investment in equity-accounted investee	8a	23,175	24,937
Deferred tax asset	3h	3,496	1,388
Total non-current assets		**65,853**	**76,597**
Cash and cash equivalents	6a	1,200	2,834
Trade receivables, other receivables and prepayments	6b	21,723	30,218
Inventories	6c	57,733	49,847
Derivative financial instruments	7	867	1,363
Tax receivable		–	1,238
Assets held for disposal	8d	–	7,029
Total current assets		**81,523**	**92,529**
Total assets		**$147,376**	**$169,126**
EQUITY			
Share capital	4b	21,846	21,846
Cash flow hedging reserve	4b	(969)	(1,171)
Foreign currency translation reserve	4b	(1,425)	(1,285)
Share rights reserve	4b	–	1,448
Retained earnings		49,909	45,346
Total equity		**69,361**	**66,184**
LIABILITIES			
Loans and borrowings	4c	37,700	45,000
Employee benefits	8c	1,237	1,626
Deferred income		84	157
Provisions	8b	3,140	3,155
Total non-current liabilities		**42,161**	**49,938**
Loans and borrowings	4c	–	11,767
Trade creditors and accruals	6d	22,779	24,326
Provisions	8b	4,060	1,445
Employee entitlements		4,370	4,533
Amounts payable to non-controlling interests		–	91
Deferred income		67	67
Derivative financial instruments	7	2,132	2,322
Provision for tax		2,446	–
Liabilities held for disposal	8d	–	8,453
Total current liabilities		**35,854**	**53,004**
Total liabilities		**78,015**	**102,942**
Total equity and liabilities		**$147,376**	**$169,126**

This statement is to be read in conjunction with the notes on pages 35 to 72.

Statement of Cash Flows

For the year ended 30 June 2016

	Note	2016 $000	2015 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		197,559	212,318
Cash paid to suppliers and employees		(192,454)	(201,108)
		5,105	**11,210**
Dividends received		2	2
Other receipts		25	23
GST (paid)/refunded		730	(1,096)
Interest paid		(3,303)	(3,892)
Income tax (paid)/refunded		(655)	(860)
Net cash flow from operating activities		**1,904**	**5,387**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		11,514	55
Proceeds from sale of tile business		1,798	–
Acquisition of property, plant and equipment	5a	(2,076)	(2,564)
Purchase consideration of non-controlling interests		(91)	–
Dividends received from equity-accounted investee	8a	4,250	2,250
Net cash flow from investing activities		**15,395**	**(259)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Movements in bank borrowings	4c	(18,796)	(4,754)
Net cash flow from financing activities		**(18,796)**	**(4,754)**
Net increase/(decrease) in cash and cash equivalents		(1,497)	374
Cash and cash equivalents at beginning of the period		2,834	2,375
Effect of exchange rate changes on cash		(137)	85
Cash and cash equivalents at end of the period		**$1,200**	**$2,834**

This statement is to be read in conjunction with the notes on pages 35 to 72.

Statement of Cash Flows continued

For the year ended 30 June 2016

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

	2016 $000	2015 $000
Profit/(Loss) after tax for the period	**3,115**	**(25,715)**
Add/(Deduct) non-cash items:		
Depreciation	3,352	5,862
Impairment of carpet tile business assets	–	12,896
Impairment of fixed assets	2,184	6,033
Impairment of intangibles	–	5,432
Deferred government grants	–	(320)
Share of profit of equity-accounted investee	(2,232)	(1,514)
(Increase)/Decrease in deferred tax assets	(2,054)	2,615
Employee benefits	(389)	(216)
Deferred income	(73)	(61)
Provisions	2,600	(875)
Net (gain)/loss on sale of property, plant and equipment	(4,281)	27
Net (gain)/loss on foreign currency balance	104	(49)
Changes in working capital items:		
Trade and other receivables	8,235	(4,313)
Inventories	(8,232)	6,248
Tax payable/receivable	3,687	(2,889)
Trade creditors and accruals	(4,342)	2,296
Derivative financial instruments	230	(70)
Net cash flow from operating activities	**$1,904**	**$5,387**

This statement is to be read in conjunction with the notes on pages 35 to 72.

Notes to the Financial Statements

For the year ended 30 June 2016

1. COMPANY INFORMATION

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

The financial statements presented are for Cavalier and its subsidiaries ("Group") and the Group's investment in equity-accounted investees as at, and for the year ended, 30 June 2016.

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

The principal activities of the Group comprise the Cavalier Bremworth and Norman Ellison broadloom carpet businesses, the Ontera Modular carpet tile operation (up until its sale on 31 August 2015), the Elco Direct wool procurement business and the Radford Yarn Technologies operation.

All Group subsidiaries are wholly-owned.

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

2. GENERAL INFORMATION RELATING TO PREPARATION OF FINANCIAL STATEMENTS

Statement of compliance

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

Basis of preparation

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

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

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

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

Significant accounting policies, estimates and judgements

There have been no changes to accounting policies.

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

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

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

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

- Note 3a – segment reporting
- Note 3h – measurement and recoverability of tax losses
- Note 6c – inventory provisioning
- Note 8b – measurement of provisions
- Note 8c – measurement of employee benefits

Accounting policies and judgements, estimations and assumptions are identified using the following shading:

Accounting policies *Judgements, estimations and assumptions*

Notes to the Financial Statements continued

For the year ended 30 June 2016

2. GENERAL INFORMATION RELATING TO PREPARATION OF FINANCIAL STATEMENTS continued

Basis of consolidation

The financial statements incorporate the assets and liabilities of all subsidiaries of the Group as at 30 June 2016 and the results of all subsidiaries for the year then ended. Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

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

New and amended accounting standards adopted

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

3. FINANCIAL PERFORMANCE

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

3a. Segment performance

Reportable segments

The Group's reportable segments are:

- carpets, which involves the manufacturing and sales of carpets by the Cavalier Bremworth and Norman Ellison broadloom carpet businesses and, up until the date of disposal, 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 Chief Executive Officer – to make decisions about the resources to be allocated to the segment and to assess its performance; and
- for which discrete financial information is available.

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

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

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

Notes to the Financial Statements continued

For the year ended 30 June 2016

3. FINANCIAL PERFORMANCE continued

3a. Segment performance continued

Inter-segment transactions

All inter-segmental transactions included in revenue and operating expenses for each segment are on arms-length basis, except for sales of yarn from the Radford Yarn operation to the Cavalier Bremworth carpet operation, which are at fully-absorbed manufacturing cost, without any mark up. Inter-segmental sales during the period and intercompany profits on stocks at balance date are eliminated on consolidation.

Geographical areas

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

	2016 $000	2015 $000
Revenue		
New Zealand	105,714	101,054
Australia	76,406	106,759
Rest of the world	8,251	7,915
	$190,371	**$215,728**

	As at 30 June 2016 $000	As at 30 June 2015 $000
Non-current assets		
New Zealand	63,421	66,938
Australia	2,432	9,659
	$65,853	**$76,597**

Major customers

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

→ Return to contents page

3. FINANCIAL PERFORMANCE continued

3a. Segment performance continued

	Carpets		Wool Acquisition	
	2016 $000	2015 $000	2016 $000	2015 $000
External revenue	146,761	174,773	39,729	37,364
Inter-segment revenue	–	–	7,975	7,437
Total revenue	**$146,761**	**$174,773**	**$47,704**	**$44,801**
Elimination of inter-segment revenue				
Consolidated revenue				
Segment result before depreciation and restructuring related expenses and gains	11,641	7,724	1,331	1,594
Depreciation	(2,936)	(5,466)	(101)	(104)
Segment result before restructuring	**8,705**	**2,258**	**1,230**	**1,490**
Gain on sale of property, plant and equipment	4,313	–	–	–
Restructuring costs	(3,459)	(387)	–	–
Impairment of carpet tile business assets	–	(12,896)	–	–
Impairment of fixed assets	(447)	(6,033)	–	–
Impairment of intangible assets	–	(5,432)	–	–
Segment result after restructuring	**9,112**	**(22,490)**	**1,230**	**1,490**
Elimination of inter-segment profits				
Unallocated corporate costs				
Results from operating activities				
Net finance costs				
Share of profit of equity-accounted investee (net of income tax)				
Profit/(Loss) before income tax				
Income tax expense				
Profit/(loss) after tax for the period				

	Other		Total	
	2016 $000	2015 $000	2016 $000	2015 $000
	3,881	3,591	190,371	215,728
	5,419	4,887	13,394	12,324
	$9,300	**$8,478**	**203,765**	**228,052**
			(13,394)	(12,324)
			$190,371	**$215,728**
	537	850	13,509	10,168
	(315)	(292)	(3,352)	(5,862)
	222	**558**	**10,157**	**4,306**
	–	–	4,313	
	(1,048)	–	(4,507)	(387)
	–	–	–	(12,896)
	(1,737)	–	(2,184)	(6,033)
	–	–	–	(5,432)
	(2,563)	**558**	**7,779**	**(20,442)**
			166	198
			(1,400)	(2,450)
			6,545	**(22,694)**
			(3,374)	(3,948)
			2,232	1,514
			5,403	**(25,128)**
			(2,288)	(587)
			$3,115	**$(25,715)**

→ Return to contents page

3. FINANCIAL PERFORMANCE continued

3a. Segment performance continued

	Carpets		Wool Acquisition	
	2016 $000	2015 $000	2016 $000	2015 $000
Reportable segment assets	112,738	132,685	3,972	3,663
Investment in equity-accounted investee				
Unallocated assets				
Total assets				
Capital expenditure	1,894	2,090	182	119
Reportable segment liabilities	36,999	43,222	2,865	2,663
Unallocated liabilities				
Total liabilities				
Employee numbers				
Operations	494	618	27	27
Unallocated				
Total employee numbers				

The determination of reportable segments pursuant to the criteria set out in paragraph 12 of NZ IFRS 8 Operating Segments requires management to make judgements around the economic characteristics of its operating segments, the nature of the products and production processes of these segments, the type or class of customers for their products and the methods used to distribute their products.

Other		Total	
2016 $000	2015 $000	2016 $000	2015 $000
7,491	7,841	124,201	144,189
		23,175	24,937
		–	–
		$147,376	**$169,126**
–	355	**$2,076**	**$2,564**
451	290	40,315	46,175
		37,700	56,767
		$78,015	**$102,942**
35	35	556	680
		5	5
		561	**685**

Notes to the Financial Statements continued

For the year ended 30 June 2016

3. FINANCIAL PERFORMANCE continued

3b. Earnings per share

Basic and diluted earnings per share (EPS)

	2016	2015
Profit/(Loss) after tax attributable to shareholders of the Company ($000)	3,115	(25,715)
Weighted average number of ordinary shares outstanding	68,679,098	68,679,098
Basic and diluted EPS (cents)	**4.5**	**(37.4)**

3c. Revenue

	2016 $000	2015 $000
Sales of goods		
Carpet	146,345	172,996
Wool	39,729	37,364
Yarn	3,881	3,591
	189,955	**213,951**
Provision of installation services	416	1,777
Total revenue	**$190,371**	**$215,728**

Sale of goods

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

Provision of services

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

3d. Other income and gains/losses

	2016 $000	2015 $000
Rentals received	25	23
Dividends received	2	2
Net gain/(loss) on sale of property, plant and equipment	4,281	(27)
Total other income and gains/(losses)	**$4,308**	**$(2)**

Notes to the Financial Statements continued

For the year ended 30 June 2016

3. FINANCIAL PERFORMANCE continued

3e. Administration expenses

The following items of expenditure are included in administration expenses:

	2016 $000	2015 $000
Donations	**$4**	**$1**
Fees paid to KPMG for:		
Audit and review of financial statements	186	185
Tax services	20	49
Other services	5	–
Accounting services	–	–
Total fees paid to KPMG	**$211**	**$234**
Adjustment to prior year audit fee	**$101**	**–**

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

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

3f. Personnel expenses

	2016 $000	2015 $000
Directors' fees	328	300
Wages, salaries, bonuses and holiday pay	38,424	47,494
Employee termination benefits	3,377	672
Employee benefits	3,089	5,429
Increase/(Decrease) in liability for retiring allowances and long service leave	197	(32)
Total personnel expenses	**$45,415**	**$53,863**

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

3g. Net finance costs

	2016 $000	2015 $000
Interest income	11	20
Interest expense	(3,385)	(3,968)
Net finance costs	**$(3,374)**	**$(3,948)**

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

→ Return to contents page

3. FINANCIAL PERFORMANCE continued

3h. Income tax

	2016 $000	2015 $000
Income tax expense in the income statement		
Current tax expense/(benefit)		
Current period	4,243	(2,547)
Adjustment for prior periods	99	599
	4,342	**(1,948)**
Deferred tax expense/(benefit)		
Origination and reversal of temporary differences	(2,379)	2,947
Adjustment for prior periods	325	(412)
	(2,054)	**2,535**
Income tax expense	**$2,288**	**$587**
Reconciliation of effective tax rate		
Profit/(Loss) after tax for the period	3,115	(25,715)
Income tax expense	2,288	587
Profit/(Loss) excluding income tax	**$5,403**	**$(25,128)**
Income tax using the Company's domestic tax rate of 28% (2015: 28%)	1,513	(7,036)
Deferred tax asset derecognised	274	6,771
Share of equity-accounted investee's tax paid profit	(625)	(424)
Non-deductible expenses	51	1,584
Effect of tax rate difference in foreign jurisdiction	122	(332)
Overprovided in prior periods	99	187
Impact from sale of Australian property	984	–
Other	(130)	(163)
Income tax expense	**$2,288**	**$587**
Income tax recognised directly in equity		
Derivative financial instruments	(22)	(731)
Income tax on income and expense recognised directly in equity	**$(22)**	**$(731)**
Imputation credits		
Imputation credits available to shareholders of the Company	**$7,862**	**$6,212**

Notes to the Financial Statements continued

For the year ended 30 June 2016

3. FINANCIAL PERFORMANCE continued

3h. Income tax continued

Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2016 $000	2015 $000	2016 $000	2015 $000	2016 $000	2015 $000
Property, plant and equipment	–	–	(2,323)	(3,686)	(2,323)	(3,686)
Derivatives	388	367	(390)	(255)	(2)	112
Inventories	1,148	669	–	–	1,148	669
Employee benefits	1,431	1,439	–	–	1,431	1,493
Provisions	3,242	2,108	–	–	3,242	2,108
Tax loss carry-forwards	–	692	–	–	–	692
Net tax assets/(liabilities)	**$6,209**	**$5,329**	**$(2,713)**	**$(3,941)**	**$3,496**	**$1,388**

The Group had no recognised carry-forward tax loss at balance date. Tax loss carry-forwards in the previous financial year had been recognised as deferred tax assets because it was probable – based on the budgets that had been prepared for the ensuing year – that future taxable profit would be available against which the Group could utilise the benefits therefrom.

Deferred tax assets have not been recognised in respect of deductible temporary differences and tax loss totalling $23,549,000 (2015; $22,570,000) because it is not probable that future taxable profit will be available against which the Group can use the benefits therefrom.

Notes to the Financial Statements continued

For the year ended 30 June 2016

3. FINANCIAL PERFORMANCE continued

3h. Income tax continued

Deferred tax assets and liabilities continued

Movement in temporary differences during the year:

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

	Balance 1 July 2014 $000	Recognised in profit or loss $000	Recognised in equity $000	Effect of exchange rate change $000	Balance 30 June 2015 $000
Property, plant and equipment	(3,723)	4	–	33	(3,686)
Derivatives	83	(703)	731	1	112
Inventories	1,038	(372)	–	3	669
Loans and borrowings	–	–	–	–	–
Employee benefits	2,031	(573)	–	35	1,493
Provisions	2,002	102	–	4	2,108
Tax loss carry-forwards	1,676	(993)	–	9	692
Total	**$3,107**	**$(2,535)**	**$731**	**$85**	**$1,388**

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

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

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

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

Notes to the Financial Statements continued

For the year ended 30 June 2016

4. FUNDING

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

4a. Capital management

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

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

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

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

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

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

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

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

	2016 $000	2015 $000
Total loans and borrowings, including current portion	37,700	56,767
Plus bank overdraft	–	–
Less cash and cash equivalents	(1,200)	(2,834)
Net debt	**36,500**	**53,933**
Total equity	69,361	66,184
Total capital employed	**$105,861**	**$120,117**
Gearing ratio	**52.6%**	**81.5%**
Leverage	**34.5%**	**44.9%**

Notes to the Financial Statements continued

For the year ended 30 June 2016

4. FUNDING continued

4b. Share capital, dividends and reserves

Share capital

	2016	2015
Number of ordinary shares issued	**68,679,098**	**68,679,098**

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

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

Dividends

No dividends were paid during the year (2015: Nil).

The Directors have not declared a final dividend in respect of the current year ended 30 June 2016 (2015: Nil).

Cash flow hedging reserve

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

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

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

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

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

Foreign currency translation reserve

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

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

Share rights reserve

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

Notes to the Financial Statements continued

For the year ended 30 June 2016

4. FUNDING continued

4c. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risks, see note 7.

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

The Group's funding facilities with the Bank were renegotiated during the year.

The Group had total New Zealand dollar-denominated bank funding facilities of $45,000,000 at balance date, and the details of these facilities and their utilisation at that date (excluding overdraft facilities of $1,595,400, all of which were not utilised at balance date) can be analysed as follows:

	GROUP		
	Facilities (excluding overdraft)	Facilities utilised at balance date	Facilities unutilised at balance date
Facilities (excluding overdraft) due for review:			
after 1 year but within 2 years	–	–	–
after 2 years	45,000	37,700	7,300
Total	**$45,000**	**$37,700**	**$7,300**

During the year, the Group had financial covenants with the Bank that required the Group to meet certain EBITDA, debt and equity ratio targets. The Group was not in breach of any of these banking covenants throughout the year ended 30 June 2016, nor as at 30 June 2016.

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

	GROUP					
	Nominal interest rate 2016 %	Face value 2016 $000	Carrying amount 2016 $000	Nominal interest rate 2015 %	Face value 2015 $000	Carrying amount 2015 $000
Secured bank loans (denominated in NZD)	7.0	37,700	37,700	7.9	50,000	50,000
Secured bank loans (denominated in AUD)	–	–	–	6.2	6,767	6,767
Total secured bank loans		**$37,700**	**$37,700**		**$56,767**	**$56,767**
Non-current		37,700	37,700		45,000	45,000
Current		–	–		11,767	11,767
Total secured bank loans		**$37,700**	**$37,700**		**$56,767**	**$56,767**

The Group had no other borrowings at balance date (2015: Nil).

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

Notes to the Financial Statements continued

For the year ended 30 June 2016

5. ASSETS EMPLOYED

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

5a. Property, plant and equipment

	Land and buildings $000	Plant and equipment $000	Other assets $000	Under construction $000	Total $000
Cost or deemed cost					
Balance at 1 July 2014	30,479	90,256	18,776	1,361	140,872
Additions	75	1,091	479	919	2,564
Disposals	–	(418)	(192)	–	(610)
Transfers	–	1,345	271	(1,616)	–
Transfers to assets held for disposal	–	(20,106)	(4,415)	–	(24,521)
Effect of changes in exchange rates	332	900	199	–	1,431
Balance at 30 June 2015	**$30,886**	**$73,068**	**$15,118**	**$664**	**$119,736**
Balance at 1 July 2015	30,886	73,068	15,118	664	119,736
Additions	–	901	450	725	2,076
Disposals	(7,270)	(1,372)	(678)	–	(9,320)
Transfers	–	525	35	(560)	–
Effect of changes in exchange rates	(397)	–	–	–	(397)
Balance at 30 June 2016	**$23,219**	**$73,122**	**$14,925**	**$829**	**$112,095**
Depreciation and impairment losses					
Balance at 1 July 2014	1,874	56,984	16,084	–	74,942
Depreciation for the year	240	4,813	809	–	5,862
Impairment losses provided	–	12,303	538	–	12,841
Disposals	–	(286)	(144)	–	(430)
Transfers to assets held for disposal	–	(17,846)	(4,226)	–	(22,072)
Effect of changes in exchange rates	–	517	166	–	683
Balance at 30 June 2015	**$2,114**	**$56,485**	**$13,227**	**–**	**$71,826**
Balance at 1 July 2015	2,114	56,485	13,227	–	71,826
Depreciation for the year	232	2,558	562	–	3,352
Impairment losses provided	–	2,184	–	–	2,184
Disposals	(377)	(1,103)	(607)	–	(2,087)
Balance at 30 June 2016	**$1,969**	**$60,124**	**$13,182**	**–**	**$75,275**

→ Return to contents page

5. ASSETS EMPLOYED continued

5a. Property, plant and equipment continued

	Land and buildings $000	Plant and equipment $000	Other assets $000	Under construction $000	Total $000
Government grants deferred					
Balance at 1 July 2014	–	2,030	–	–	2,030
Release to income	–	(320)	–	–	(320)
Transfers to assets held for disposal	–	(1,792)	–	–	(1,792)
Effect of changes in exchange rates	–	82	–	–	82
Balance as at 30 June 2015	**–**	**–**	**–**	**–**	**–**
Balance at 1 July 2015	–	–	–	–	–
Balance as at 30 June 2016	**–**	**–**	**–**	**–**	**–**
Carrying amounts					
At 30 June 2015	$28,772	$16,583	$1,891	$664	$47,910
At 30 June 2016	**$21,250**	**$12,998**	**$1,743**	**$829**	**$36,820**

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

Impairment loss

Impairment losses in respect of specific items of plant and equipment relating to the restructuring of manufacturing of $2,184,000 were recognised during the year (2015: $12,841,000 in respect of under-utilised plant and equipment). No prior period impairment losses were reversed during the year (2015: Nil).

Notes to the Financial Statements continued

For the year ended 30 June 2016

5. ASSETS EMPLOYED continued

5a. Property, plant and equipment continued

Security

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

Recognition and measurement

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

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

Under construction

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

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

Depreciation

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

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

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

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

5b. Capital commitments

The Group had outstanding commitments for the purchase of plant and equipment of $12,000 at balance date (2015: Nil).

→ Return to contents page

5. ASSETS EMPLOYED continued

5c. Goodwill

Goodwill relates to the acquisition of Radford Yarn Technologies Limited and represents the excess of the cost of investment over the fair value of identifiable assets, liabilities and contingent liabilities at acquisition date.

For the purposes of impairment testing, the Group determined the recoverable amount of Radford Yarn Technologies by determining its value in use by discounting its future cash flows using a post-tax discount rate of 13% (2015: 13%). As a result of the impairment testing carried out, management is satisfied that there was no impairment of goodwill at balance date and that the results are not sensitive to the changes in the underlying assumptions used in assessing impairment.

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

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

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

6. WORKING CAPITAL

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

6a. Cash and cash equivalents

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

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

6b. Trade receivables, other receivables and prepayments

	2016 $000	2015 $000
Trade receivables due from trade customers	21,106	29,582
Other receivables	80	39
Prepayments	537	890
	21,723	**30,511**
Transfer to assets held for disposal	–	(293)
	$21,723	**$30,218**

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

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

Further management commentary on, and quantitative disclosure of, credit risk can be found in note 7.

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

Notes to the Financial Statements continued

For the year ended 30 June 2016

6. WORKING CAPITAL continued

6c. Inventories

	2016 $000	2015 $000
Raw materials and consumables	19,706	21,424
Work in progress	2,780	3,132
Finished goods	35,247	31,370
	57,733	**55,926**
Transfer to assets held for disposal	–	(6,079)
	$57,733	**$49,847**
Carrying amount of inventories subject to retention of title clauses	**$655**	**$1,207**

In 2016, the net realisable value provision in respect of inventories increased by $2,664,000 (2015: $5,342,000, made up of an increase of $5,338,000 which was included as part of the impairment of carpet tile business assets and an increase of $4,000 which was included in cost of sales).

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

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

6d. Trade creditors and accruals

	2016 $000	2015 $000
Trade payables due to external parties	21,472	26,938
Accrued expenses	1,307	3,358
	22,779	**30,296**
Transfer to liabilities held for disposal	–	(5,970)
	$22,779	**$24,326**

Notes to the Financial Statements continued

For the year ended 30 June 2016

7. RISKS AND FINANCIAL INSTRUMENTS

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

Management commentary

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

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

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

Credit risk

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

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

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

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

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

Notes to the Financial Statements continued

For the year ended 30 June 2016

7. RISKS AND FINANCIAL INSTRUMENTS continued

Management commentary continued

Liquidity risk

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

The Group's contractual cash flows and liquidity risk profile are set out in detail on page 58.

Foreign currency risk

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

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

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

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

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

Interest rate risk

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

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

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

Notes to the Financial Statements continued

For the year ended 30 June 2016

7. RISKS AND FINANCIAL INSTRUMENTS continued

Quantitative disclosures

Credit risk

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

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

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

	2016 $000	2015 $000
New Zealand	10,733	12,656
Australia	8,372	14,933
Other regions	2,081	2,032
Trade and other receivables	**$21,186**	**$29,621**

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

	Gross receivable 2016 $000	Impairment 2016 $000	Gross receivable 2015 $000	Impairment 2015 $000
Not past due	17,199	(88)	23,746	–
Past due 0 – 30 days	3,228	–	4,944	–
Past due 31 – 120 days	626	(41)	764	(26)
Past due > 120 days	309	(47)	233	(40)
Total	**$21,362**	**$(176)**	**$29,687**	**$(66)**

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

	2016 $000	2015 $000
Trade and other receivables – gross	21,362	29,687
Individual impairment	(176)	(66)
Trade and other receivables – net	**$21,186**	**$29,621**

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

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

	2016 $000	2015 $000
Balance at 1 July	(66)	(80)
Impaired trade receivables written off	65	30
Changes in impairment provision	(175)	(16)
Balance at 30 June	**$(176)**	**$(66)**

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

Notes to the Financial Statements continued

For the year ended 30 June 2016

7. RISKS AND FINANCIAL INSTRUMENTS continued

Quantitative disclosures continued

Liquidity risk

The following table sets out the contractual cash flows for all material financial liabilities (including projected interest costs). The Group expects that it will be able to meet all of its contractual obligations out of the positive net cash flow from operating activities, currently unutilised bank facilities (see note 4c) and cash and cash equivalents at bank. See page 56 for further discussions around liquidity risk.

	Statement of financial position $000	Total contractual cash flows $000	Timing of contractual cash flows: 6 months or less $000	6 – 12 months $000	1 – 2 years $000	2 – 5 years $000	Over 5 years $000
2016							
Secured bank loans	37,700	40,643	751	751	4,141	35,000	–
Trade creditors and accruals	22,779	22,779	22,779	–	–	–	–
Total non-derivative liabilities	**$60,479**	**$63,422**	**$23,530**	**$751**	**$4,141**	**$35,000**	**–**
Interest rate swaps	**$1,283**	**$1,218**	**$235**	**$201**	**$342**	**$440**	–
Forward exchange contracts							
Inflow		46,786	38,036	8,750	–	–	–
Outflow		(46,949)	(37,871)	(9,078)	–	–	–
	$(18)	**$(163)**	**$165**	**$(328)**	**–**	**–**	**–**
2015							
Secured bank loans	56,767	60,076	1,385	19,958	38,733	–	–
Trade creditors and accruals	24,326	24,326	24,326	–	–	–	–
Other payables	91	91	91	–	–	–	–
Total non-derivative liabilities	**$81,184**	**$84,493**	**$25,802**	**$19,958**	**$38,733**	**–**	**–**
Interest rate swaps	**$944**	**$891**	**$95**	**$116**	**$225**	**$425**	**$30**
Forward exchange contracts							
Inflow		49,980	40,589	9,391	–	–	–
Outflow		(49,972)	(40,397)	(9,575)	–	–	–
	$15	**$8**	**$192**	**$(184)**	**–**	**–**	**–**

Notes to the Financial Statements continued

For the year ended 30 June 2016

7. RISKS AND FINANCIAL INSTRUMENTS continued

Quantitative disclosures continued

Foreign currency risk

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

NZD equivalent of these foreign currencies:	AUD $000	USD $000	EUR $000	Others $000
2016				
Trade receivables	8,212	1,004	53	53
Trade payables	(2,680)	(4,674)	(7)	–
Net statement of financial position exposure before hedging activity	**5,532**	**(3,670)**	**46**	**53**
Estimated forecast sales for which hedging is in place	12,040	46	63	–
Estimated forecast purchases for which hedging is in place	–	(25,534)	–	–
Net cash flow exposure before hedging activity	**17,572**	**(29,158)**	**109**	**53**
Forward exchange contracts				
Notional amounts	(17,572)	29,251	(86)	–
Net unhedged exposure	**–**	**$93**	**$23**	**$53**
2015				
Trade receivables	8,489	1,129	612	29
Secured bank loans	(6,767)	–	–	–
Trade payables	(3,024)	(9,223)	(16)	–
Net statement of financial position exposure before hedging activity	**(1,302)**	**(8,094)**	**596**	**29**
Estimated forecast sales for which hedging is in place	33,549	194	115	–
Estimated forecast purchases for which hedging is in place	–	(8,755)	–	–
Net cash flow exposure before hedging activity	**32,247**	**(16,655)**	**711**	**29**
Forward exchange contracts				
Notional amounts	(32,247)	16,655	(672)	–
Net unhedged exposure	**–**	**–**	**$39**	**$29**

Notes to the Financial Statements continued

For the year ended 30 June 2016

7. RISKS AND FINANCIAL INSTRUMENTS continued

Quantitative disclosures continued

Interest rate risk – re-pricing analysis

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

	Total $000	6 months or less $000	6 – 12 months $000	1 – 2 years $000	2 – 5 years $000	Over 5 years $000
2016						
Financial assets and liabilities						
Cash and cash equivalents	1,200	1,200	–	–	–	–
Secured bank loans	(37,700)	(37,700)	–	–	–	–
	(36,500)	**(36,500)**	**–**	**–**	**–**	**–**
Related derivatives						
Effect of interest rate swaps	–	17,500	–	(5,000)	(12,500)	–
Total	**$(36,500)**	**$(19,000)**	**–**	**$(5,000)**	**$(12,500)**	**–**
2015						
Financial assets and liabilities						
Cash and cash equivalents	2,834	2,834	–	–	–	–
Secured bank loans	(56,767)	(56,767)	–	–	–	–
	(53,933)	**(53,933)**	**–**	**–**	**–**	**–**
Related derivatives						
Effect of interest rate swaps	–	25,000	–	(7,500)	(12,500)	(5,000)
Total	**$(53,933)**	**$(28,933)**	**–**	**$(7,500)**	**$(12,500)**	**$(5,000)**

Notes to the Financial Statements continued

For the year ended 30 June 2016

7. RISKS AND FINANCIAL INSTRUMENTS continued

Sensitivity analysis

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

At 30 June 2016, 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 $165,000 per annum (2015: increase loss by $248,000). Interest rate swaps have been included in this calculation.

It is estimated that a general increase of ten percentage points in the value of the New Zealand dollar against other foreign currencies at balance date would have no impact on the Group's profit or loss before income tax for the years ended 30 June 2016 and 2015 after taking into account the forward exchange contracts that the Group had in place at balance date to hedge these exposures.

Hedging

Interest rate hedges

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

At 30 June 2016, the Group had interest rate swaps with a notional contract amount of $25,000,000 (2015: $25,000,000). $10,000,000 of these will mature within six months of balance date (2015: $5,000,000), with the balance maturing over the next four years. The Group also had future dated swaps with a notional value of $2,500,000 as at 30 June 2016 (2015: $7,500,000). The entire $2,500,000 of future dated swaps as at 30 June 2016 (2015: $5,000,000) relate to the extension of $2,500,000 of the $10,000,000 swaps that will expire within six months of balance date (2015: $5,000,000).

The Group classifies interest rate swaps as cash flow hedges. These swaps have fixed swap rates ranging from 3.5% to 4.92% (2015: 3.5% to 4.92%).

The net fair value of swaps at 30 June 2016 was a loss of $1,283,000 (2015: loss of $944,000).

Forecast transactions

The Group classifies the forward exchange contracts taken out to hedge forecast transactions as cash flow hedges. These forecast transactions are expected to occur within 12 months of balance date (2015: 12 months). The net fair value of forward exchange contracts used as hedges of forecast transactions at 30 June 2016 was a loss of $104,000 (2015: loss of $367,000).

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 2016 was a gain of $121,000 (2015: $352,000) recognised in fair value derivatives.

Notes to the Financial Statements continued

For the year ended 30 June 2016

7. RISKS AND FINANCIAL INSTRUMENTS continued

Classification and fair values

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

	Hedging instruments $000	Loans and receivables $000	Other amortised cost $000	Total carrying amount $000	Fair value $000	Fair value hierarchy Level 2 $000
2016						
Assets						
Derivatives	867	–	–	867	867	867
Trade and other receivables	–	21,186	–	21,186	21,186	–
Cash and cash equivalents	–	1,200	–	1,200	1,200	–
Total assets	**$867**	**$22,386**	**–**	**$23,253**	**$23,253**	
Liabilities						
Loans and borrowings	–	–	37,700	37,700	37,700	37,700
Total non-current liabilities	**–**	**–**	**37,700**	**37,700**	**37,700**	
Derivatives	2,132	–	–	2,132	2,132	2,132
Trade and other payables	–	–	27,149	27,149	27,149	–
Total current liabilities	**2,132**	**–**	**27,149**	**29,281**	**29,281**	
Total liabilities	**$2,132**	**–**	**$64,849**	**$66,981**	**$66,981**	
2015						
Assets						
Derivatives	1,363	–	–	1,363	1,363	1,363
Trade and other receivables	–	29,621	–	29,621	29,621	–
Cash and cash equivalents	–	2,834	–	2,834	2,834	–
Total assets	**$1,363**	**$32,455**	**–**	**$33,818**	**$33,818**	
Liabilities						
Loans and borrowings	–	–	45,000	45,000	45,000	45,000
Total non-current liabilities	**–**	**–**	**45,000**	**45,000**	**45,000**	
Loans and borrowings	–	–	11,767	11,767	11,767	–
Derivatives	2,322	–	–	2,322	2,322	2,322
Trade and other payables	–	–	37,403	37,403	37,403	–
Total current liabilities	**2,322**	**–**	**49,170**	**51,492**	**51,492**	
Total liabilities	**$2,322**	**–**	**$94,170**	**$96,492**	**$96,492**	

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

Notes to the Financial Statements continued

For the year ended 30 June 2016

7. RISKS AND FINANCIAL INSTRUMENTS continued

Classification and fair values continued

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

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

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

The underlying interest rate margins of loans and borrowings, which were renegotiated in June 2016, approximate current margins, and fair value approximates the present value of future principal and interest cash flows.

Determination of fair values

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

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

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

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

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

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

Master netting or similar agreements

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

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

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

	2016		2015	
	Derivative assets $000	Derivative liabilities $000	Derivative assets $000	Derivative liabilities $000
Gross amounts in the statement of financial position	867	(2,132)	1,363	(2,322)
Amounts offset	–	–	–	–
Net amounts in the statement of financial position	**867**	**(2,132)**	**1,363**	**(2,322)**
Related amounts that are not offset based on ISDA	(867)	867	(1,363)	1,363
Net amounts	**–**	**$(1,265)**	**–**	**$(959)**

Notes to the Financial Statements continued

For the year ended 30 June 2016

8. OTHERS

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

8a. Equity-accounted investee

The details relating to the Group's interest in Cavalier Wool Holdings Limited (CWH), a joint venture in which the Group has joint control and a 50% ownership interest, are set out below:

	2016 $000	2015 $000
Carrying value at 1 July	24,937	25,900
Share of comprehensive income	2,488	1,287
Dividends received	(4,250)	(2,250)
Carrying value at 30 June	**$23,175**	**$24,937**

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

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

	2016 $000	2015 $000
Cash and cash equivalents	37	24
Other current assets	10,424	8,396
Non-current assets	59,405	60,006
Total assets	**69,866**	**68,426**
Current liabilities	21,442	16,230
Non-current liabilities	3,658	3,905
Total liabilities	**25,100**	**20,135**
Net assets (100%)	**$44,766**	**$48,291**
Revenue	35,347	34,361
Depreciation	(2,992)	(2,999)
Net interest expense	(971)	(908)
Other expenses	(23,962)	(24,797)
Merger costs	(876)	(1,040)
Profit before tax	**6,546**	**4,617**
Income tax expense	(2,083)	(1,590)
Profit after tax	**4,463**	**3,027**
Changes in fair value of cash flow hedges (net of tax)	512	(454)
Total comprehensive income (100%)	**$4,975**	**$2,573**

Notes to the Financial Statements continued

For the year ended 30 June 2016

8. OTHERS continued

8a. Equity-accounted investee continued

	2016 $000	2015 $000
Percentage ownership interest	**50%**	**50%**
Share of net assets	22,383	24,145
Initial transaction costs	792	792
Carrying value of interest in CWH	**$23,175**	**$24,937**
Group's share of profit after tax	2,232	1,514
Group's share of changes in fair value of cash flow hedges (net of tax)	256	(227)
Group's share of total comprehensive income of CWH	**$2,488**	**$1,287**

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

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

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

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

→ Return to contents page

8. OTHERS continued

8b. Provisions

	Insurances $000	Restructuring $000	Onerous contracts $000	Warranties $000	Total $000
Balance at 1 July 2014	210	665	3,939	859	5,673
Amounts provided during the year	–	286	–	354	640
Amounts incurred during the year	–	(151)	(595)	(586)	(1,332)
Released to profit or loss during the year	–	–	(286)	–	(286)
Effect of movements in exchange rates	–	–	–	5	5
	210	**800**	**3,058**	**632**	**4,700**
Transfer to liabilities held for disposal	–	–	–	(100)	(100)
Balance at 30 June 2015	**$210**	**$800**	**$3,058**	**$532**	**$4,600**
Non-current	210	800	2,145	–	3,155
Current	–	–	913	532	1,445
Balance at 30 June 2015	**$210**	**$800**	**$3,058**	**$532**	**$4,600**
Balance at 1 July 2015	210	800	3,058	532	4,600
Amounts provided during the year	–	2,983	–	810	3,793
Amounts incurred during the year	–	–	(551)	(532)	(1,083)
Released to profit or loss during the year	–	–	(110)	–	(110)
Effect of movements in exchange rates	–	–	–	–	–
Balance at 30 June 2016	**$210**	**$3,783**	**$2,397**	**$810**	**$7,200**
Non-current	210	1,277	1,653	–	3,140
Current	–	2,506	744	810	4,060
Balance at 30 June 2016	**$210**	**$3,783**	**$2,397**	**$810**	**$7,200**

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*.

→ Return to contents page

8. OTHERS continued

8b. Provisions continued

Restructuring

As part of the Group's strategic plan to address its cost base, the Group announced in May 2016 that it was restructuring its yarn manufacturing operations in Napier, Wanganui and Christchurch.

This included:

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

The Group also announced in August 2015 that it was outsourcing its warehousing and distribution function to a third party logistics provider.

The Group recognised in respect of these two initiatives a provision of $2,983,000 (with $2,506,000 of this expected to be incurred within 12 months of balance date) for expected restructuring costs, including employee termination benefits, employee support costs and contract termination costs.

Onerous contracts

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

Warranties

The provision for warranties relates mainly to carpet sold during the years ended 30 June 2016 and 2015. The provision is based on estimates made from historical warranty data associated with similar products sold by the Group. The Group expects to incur all of the liability over the next year.

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

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

→ Return to contents page

8. OTHERS continued

8c. Employee benefits

	2016 $000	2015 $000
Liability for retiring allowances	96	456
Liability for long service leave	1,141	1,572
Total employee benefits	**1,237**	**2,028**
Transfer to liabilities held for disposal	–	(402)
	$1,237	**$1,626**

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

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

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

8d. Assets and liabilities held for disposal

	Notes	2016 $000	2015 $000
Assets held for disposal			
Property, plant and equipment	5a	–	657
Prepayments	6b	–	293
Inventories	6c	–	6,079
		–	**$7,029**
Liabilities held for disposal			
Employee benefits – term	8c	–	402
Trade creditors and accruals	6d	–	5,970
Provisions	8b	–	100
Employee entitlements – current		–	1,981
		–	**$8,453**

All assets and liabilities held for disposal at 30 June 2015 were sold during the year pursuant to the asset sale and purchase agreement entered into in August 2015 for the sale of certain manufacturing assets and liabilities of the carpet tile operation.

→ Return to contents page

8. OTHERS continued

8e. Operating leases

	2016 $000	2015 $000
Lease payments relating to non-cancellable operating leases	**$3,973**	**$5,855**
Gross commitments under non-cancellable operating leases:		
Less than one year	4,474	6,985
Between one and five years	7,671	11,110
More than five years	–	9

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

	Expiry date	Rights of renewal
6 Hautu Drive, Auckland, New Zealand	Within 1 year	Two rights of renewal of 6 years each
27 Connaught Drive, Christchurch, New Zealand	Within 1 year	Two rights of renewal of 6 years each
10 Gassman Drive, Yatala, Queensland, Australia	Within 2 years	None
373 Neilson Street, Auckland, New Zealand	Within 4 years	None
273 Neilson Street, Auckland, New Zealand	Within 4 years	None

These leases provide for regular reviews of rentals to reflect market rates. In some cases, they provide for rent reviews that are based on changes in the relevant consumer price index.

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

	2016 $000	2015 $000
Sublease income relating to non-cancellable operating leases	**$971**	**$927**
Gross sublease income commitments under non-cancellable operating leases:		
Less than one year	509	555
Between one and five years	–	174

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

8f. Contingencies

The Group has granted indemnities in favour of Bank of New Zealand and National Australia Bank Limited (together, "the Bank") at balance date in respect of Bank guarantees relating to operating leases and other commitments totalling $1,335,000 (2015: $1,757,000).

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

The Group's indebtedness under the cross guarantee at balance date amounted to $37,700,000 (2015: $56,767,000).

→ Return to contents page

8. OTHERS continued

8g. Related parties

Transactions with substantial shareholders

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

Transactions with directors and senior managers

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

As shareholders

Some of the Directors are shareholders in the Company.

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

As lenders or borrowers

There were no loans to, or from, the Directors and senior managers during the year ended 30 June 2016 (2015: Nil).

Directors' remuneration and benefits

The fees paid to the Directors for services in their capacity as directors totalled $328,407 during the year ended 30 June 2016 (2015: $299,677).

No other services were provided by the Directors during the year (2015: Nil).

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

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

G C W Biel, a long-serving Director, is entitled to a lump sum retiring allowance pursuant to an arrangement that is contained in the Company's constitution. The amount of this retiring allowance, which was set in November 2007, is $96,000. The Company decided at that time that retiring allowances would no longer be offered in respect of new Directors appointed to the Board of Directors.

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

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

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

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

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

	2016 $000	2015 $000
Salaries, bonuses and leave entitlements	2,372	2,157
Employee benefits	194	258
Termination payments	326	602
	$2,892	**$3,017**

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

Notes to the Financial Statements continued

For the year ended 30 June 2016

8. OTHERS continued

8g. Related parties continued

Other transactions

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

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

Transactions with non-controlling interests

The Group acquired the remaining 60,000 shares/3% of Cavalier Commercial Pty Limited (previously Ontera Modular Carpets Pty Limited) it did not already own from non-controlling interests during the year (2015: Nil).

No dividends were paid to the non-controlling interests in Cavalier Commercial Pty Limited during the year (2015: Nil).

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

The Group received $4,250,000 of dividends from CWH during the year (2015: $2,250,000).

The value of wool scouring services contracted directly with CWH during the year was $757,000 (2015: $739,000).

At balance date, the Group owed CWH $117,695 (inclusive of GST) in respect of invoices for wool scouring services provided in June 2016, but which were not due for payment at balance date (2015: $40,271). CWH owed the Group $50,158 (inclusive of GST) being rebates in respect of scouring services and wool storage provided in June 2016 (2015: $23,302) at balance date. All these amounts were paid in full after balance date.

8h. Group entities

Operating subsidiaries of the Group

	Principal activity	Country of incorporation	Interest (%) 2016	Interest (%) 2015
Cavalier Bremworth Limited	Broadloom carpet manufacturing and distribution	New Zealand	100	100
Cavalier Bremworth Pty Limited	Broadloom carpet distribution	Australia	100	100
Cavalier Spinners Limited	Carpet yarn manufacturing	New Zealand	100	100
Elco Direct Limited	Wool acquisition	New Zealand	100	100
Norman Ellison Carpets Limited	Broadloom carpet distribution	New Zealand	100	100
Norman Ellison Carpets Pty Limited	Broadloom carpet distribution	Australia	100	100
Radford Yarn Technologies Limited	Carpet yarn manufacturing	New Zealand	100	100
Cavalier Commercial Pty Limited (previously Ontera Modular Carpets Pty Limited)	Carpet tile distribution	Australia	100	97
Cavalier Commercial Limited (previously Ontera Modular Carpets Limited)	Carpet tile distribution	New Zealand	100	97

→ Return to contents page

8. OTHERS continued

8h. Group entities continued

Equity-accounted investee of the Group

	Principal activity	Country of incorporation	Interest (%) 2016	Interest (%) 2015
Cavalier Wool Holdings Limited	Wool scouring	New Zealand	50	50

8i. Standards, interpretations and amendments to standards

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

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

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

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

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

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

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

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

The Group will adopt NZ IFRS 9 for its financial year ending 30 June 2019 and has yet to assess its full impact.

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

NZ IFRS 15 deals with revenue recognition and establishes principles for reporting information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.

NZ IFRS 15 replaces NZ IAS 18 *Revenue* and NZ IAS 11 *Construction Contracts* and related interpretations.

The Group will adopt NZ IFRS 15 for its financial year ending 30 June 2019 and is currently assessing its full impact.

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

NZ IFRS 16 which was published by the International Accounting Standards Board ("IASB") in January 2016 will replace the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified assets for a period of time in exchange for consideration. Under NZ IAS 17, a lessee is required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 will require a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets, but this exemption can only be applied by lessees.

The Group will adopt NZ IFRS 16 for its financial year ending 30 June 2020 and has yet to assess its full impact.

→ Return to contents page

Trend Statement

	2016 $000	2015 $000	2014 $000	2013 $000	2012 $000	2011 $000
Financial Performance						
Operating revenue	**$190,371**	**$215,728**	**$200,642**	**$201,739**	**$217,198**	**$229,373**
EBITDA (normalised)	12,275	8,517	14,609	12,142	12,278	31,916
Depreciation	(3,352)	(5,862)	(5,849)	(6,328)	(6,738)	(6,315)
EBIT (normalised)	8,923	2,655	8,760	5,814	5,540	25,601
Net interest expense	(3,374)	(3,948)	(3,484)	(3,740)	(4,049)	(3,545)
Share of after tax profit of equity-accounted investee (normalised)	2,670	2,034	2,044	5,013	3,302	2,039
Profit before income tax (normalised)	8,219	741	7,320	7,087	4,793	24,095
Income tax (expense)/benefit	(1,906)	454	(1,530)	(463)	(510)	(6,829)
Profit after tax (normalised)	**6,313**	**1,195**	**5,790**	**6,624**	**4,283**	**17,266**
Abnormal costs (after tax)	(3,198)	(26,910)	–	(3,594)	(5,916)	914
Profit/(Loss) after tax attributable to shareholders of the Company (GAAP)	**3,115**	**(25,715)**	**5,790**	**3,030**	**(1,633)**	**18,180**
Ordinary dividends paid	–	–	(4,785)	–	(7,509)	(12,233)
Profit/(Loss) after dividends	**$3,115**	**$(25,715)**	**$1,005**	**$3,030**	**$(9,142)**	**$5,947**
Financial Position						
Shareholders' equity	69,361	66,184	92,959	93,918	90,855	99,294
Loans and borrowings	37,700	45,000	61,220	58,896	68,503	60,070
Term liabilities	4,461	4,938	6,363	6,961	5,591	4,927
Loans and borrowings – current portion	–	11,767	–	320	172	7,617
Current liabilities	35,854	41,237	37,518	36,542	36,313	43,817
Shareholders' equity and total liabilities	**$147,376**	**$169,126**	**$198,060**	**$196,637**	**$201,434**	**$215,725**
Fixed assets	36,820	47,910	63,900	68,932	75,080	80,110
Investment in equity-accounted investee	23,175	24,937	25,900	23,856	22,593	22,291
Goodwill and other intangibles	2,362	2,362	7,794	7,794	7,502	7,502
Deferred tax asset	3,496	1,388	3,107	2,797	1,998	158
Non-current assets	**65,853**	**76,597**	**100,701**	**103,379**	**107,173**	**110,061**
Current assets	81,523	92,529	97,359	93,258	94,261	105,664
Total assets	**$147,376**	**$169,126**	**$198,060**	**$196,637**	**$201,434**	**$215,725**

Trend Statement continued

	2016 $000	2015 $000	2014 $000	2013 $000	2012 $000	2011 $000
Abnormal items (after tax)						
Impairment of carpet tile business assets	–	(9,132)	–	–	–	–
Impairment of fixed assets	(1,573)	(4,344)	–	–	–	–
Impairment of intangible assets	–	(5,432)	–	–	–	–
Derecognition of deferred tax asset	–	(6,771)	–	–	–	–
Restructuring costs	(3,222)[1]	(711)	–	(4,113)[2]	(5,916)[2]	–
Scour merger costs	(438)	(520)	–	–	–	
Releases of provisions made previously	–	–	–	519	–	–
Gain on sale of property	2,035	–	–	–	–	–
Others	–	–	–	–	–	914[3]
Total	**$(3,198)**	**$(26,910)**	**–**	**$(3,594)**	**$(5,916)**	**$914**

[1] Employee termination benefits and employee support costs as a consequence of further business improvement plans during the year (including the restructuring of yarn manufacturing operations)

[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

[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"

Trend Statement continued

	2016	2015	2014	2013	2012	2011
Financial Ratios and Summary						
Use of Funds and Return on Investment						
Return on average shareholders' equity (normalised)	9.3%	1.5%	6.2%	7.2%	4.5%	18.1%
NOPAT : Total funds employed (normalised)	10.1%	3.5%	4.2%	5.4%	4.4%	10.8%
Basic and diluted earnings per ordinary share (normalised)	9.2c	1.7c	8.5c	9.7c	6.3c	25.4c
Financial Structure						
Net tangible asset backing per ordinary share	$0.98	$0.93	$1.24	$1.26	$1.22	$1.34
Proprietorship ratio	47.1%	39.1%	46.9%	47.8%	45.1%	46.0%
Net interest-bearing debt : equity ratio	34:66	45:55	39:61	36:64	42:58	40:60
Net interest cover (normalised) (times)	4.4	1.5	2.5	3.0	2.4	7.2
Return to Shareholders						
Dividends paid per ordinary share (excluding supplementary)	–	–	7.0c	–	11.0c	18.0c
Dividend imputation	–	–	100%	–	100%	100%
Ordinary dividend cover (normalised) (times)	–	–	1.2	–	0.6	1.4
Supplementary dividends paid per ordinary share	–	–	1.24c	–	1.94c	3.18c
Share Price						
June	$0.76	$0.36	$1.33	$1.70	$1.52	$3.80
52 week high	$0.77	$1.36	$2.03	$2.12	$3.83	$4.00
52 week low	$0.35	$0.31	$1.33	$1.45	$1.41	$2.33
Market Capitalisation ($000)						
June	$52,196	$24,724	$91,343	$116,049	$103,761	$259,403
Capital Expenditure and Depreciation ($000)						
Capital expenditure	$2,076	$2,564	$2,494	$1,907	$2,457	$5,391
Depreciation	$3,352	$5,862	$5,849	$6,328	$6,738	$6,315

→ Return to contents page

Trend Statement continued

Glossary of financial terms

EBITDA	Earnings before interest, tax, depreciation and amortisation
EBIT	Earnings before interest and tax
NOPAT	EBIT less theoretical tax on EBIT plus dividends received from equity-accounted investee
EBITDA (normalised)	Earnings before abnormal costs, interest, tax, depreciation and amortisation
EBIT (normalised)	Earnings before abnormal costs, interest and tax
NOPAT (normalised)	EBIT (normalised) less theoretical tax on EBIT (normalised) plus dividends received from equity-accounted investee
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-current 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 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 investee 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 73 to 76, contains financial information that is non-GAAP (Generally Accepted Accounting Practice) and therefore falls within the Financial Markets Authority's guidance note on "Disclosing non-GAAP financial information" issued in September 2012.

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

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

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

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

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

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

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

Disclosure of non-GAAP financial information continued

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

	2016 $000	2015 $000
GAAP-compliant reported profit/(loss) after tax	3,115	(25,715)
Less after tax gain on sale of property	(2,035)	–
Add back after tax impact of:		
Impairment of carpet tile business assets	–	9,132
Impairment of fixed assets	1,573	4,344
Impairment of intangible assets	–	5,432
Derecognition of deferred tax asset	–	6,771
Restructuring costs	3,222	711
Scour merger costs	438	520
Net add-back	**3,198**	**26,910**
Non GAAP-compliant normalised profit after tax	**$6,313**	**$1,195**

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

	GAAP-compliant reported profit/loss after tax	Add back abnormal costs (net of tax)	Non GAAP-compliant normalised profit after tax
Year ended 30 June 2016			
Profit/(Loss) attributable to shareholders ($000)	$3,115	$3,198	$6,313
Weighted average number of ordinary shares	68,679,098		68,679,098
Earnings per share (basic and diluted)	4.5 cents		9.2 cents
Year ended 30 June 2015			
Profit/(Loss) attributable to shareholders ($000)	$(25,715)	$26,910	$1,195
Weighted average number of ordinary shares	68,679,098		68,679,098
Earnings per share (basic and diluted)	(37.4) cents		1.7 cents

→ Return to contents page

Governance and Other Disclosures

For the year ended June 2016

Click on the list above to navigate through this document

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

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

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

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

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

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

PRINCIPLE 1 – ETHICAL STANDARDS

Code of conduct

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

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

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

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

Conflicts of interest

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

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

The Directors' disclosure of interest can be found on pages 87 to 89.

Share trading policy

Directors and employees who are likely to have knowledge of, or access to, material information can only buy or sell Cavalier shares during permitted periods and with the written consent of the Board. They must not use their position of confidential knowledge of the Company or its business to engage in share trading for personal benefit or to provide benefit to any third party.

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

A regular review of the share register is conducted to ensure compliance with the share trading policy.

PRINCIPLE 2 – BOARD COMPOSITION AND PERFORMANCE

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

The profile of the Directors can be found on page 24.

As at 30 June 2016, the Board comprised five Directors – Sarah Haydon (Chairman), John Rae (Deputy Chairman), Grant Biel, Steve Bootten and Dianne McAteer.

Sarah Haydon was appointed Chairman of the Board with effect from 10 July 2015 to replace Alan James who retired from his role as a Director on that date.

At the same time, Steve Bootten, Dianne McAteer and John Rae were also appointed to the Board.

Graeme Hawkins retired from his role as a Director on 31 March 2016.

Director independence

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

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

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

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

Steve Bootten, Sarah Haydon, Dianne McAteer and John Rae are independent Directors of the Company as at 30 June 2016.

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

Board role and responsibility

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

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

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

Corporate Governance Statement continued

PRINCIPLE 2 – BOARD COMPOSITION AND PERFORMANCE continued

Delegation

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

Induction and Board access to information and advice

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

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

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

Nomination and appointment of Directors

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

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

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

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

Evaluation of Board performance

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

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

Attendance at meetings

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

The attendance record of the Directors at Board and committee meetings held during the year ended 30 June 2016 is as follows:

	Board					
	Scheduled	Special	Audit Committee	Remuneration Committee	Nomination Committee	Shareholders
Total held	**11**	**3**	**4**	**1**	**–**	**1**
Attendance:						
Grant Biel	11	3	4	1	–	1
Steve Bootten [1]	11	2/2	4	1	–	1
Sarah Haydon	11	3	4	1	–	1
Dianne McAteer [1]	11	1/2	4	1	–	1
John Rae [1]	11	1/2	4	1	–	1
Graeme Hawkins [2]	8/8	3	3/3	–	–	1
Alan James [3]	–	1/1	–	–	–	–

[1] appointed Director 10 July 2015

[2] ceased to be Director 31 March 2016

[3] ceased to be Director 10 July 2015

PRINCIPLE 3 – BOARD COMMITTEES

The Board has three standing committees as follows:

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

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

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

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

Audit Committee

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

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

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

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

The members of the Audit Committee as at 30 June 2016 were Steve Bootten (Chairman), Grant Biel, Sarah Haydon, Dianne McAteer and John Rae.

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

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

Remuneration Committee

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

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

The Remuneration Committee meets as and when required.

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

The members of the Remuneration Committee as at 30 June 2016 were John Rae (Chairman), Grant Biel, Steve Bootten, Sarah Haydon and Dianne McAteer.

PRINCIPLE 3 – BOARD COMMITTEES continued

Nomination Committee

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

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

The Nomination Committee meets as and when required.

The members of the Nomination Committee as at 30 June 2016 were Sarah Haydon (Chairman), Grant Biel, Steve Bootten, Dianne McAteer and John Rae.

PRINCIPLE 4 – REPORTING AND DISCLOSURE

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

The Directors are also committed to preparing financial statements that comply with New Zealand Generally Accepted Accounting Practice and give a true and fair view of Cavalier's financial position as at balance date and of its operations and cash flows for the year ended on that date.

Financial reporting

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

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

Timely and balanced disclosure

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

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

PRINCIPLE 5 – REMUNERATION

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

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

Shareholders resolved at the November 2007 Annual Meeting of shareholders that the total remuneration to be paid to the non-executive Directors be fixed at a sum not exceeding $350,000 per annum, such sum to be divided amongst them in such proportions and in such manner as they may determine. The total remuneration paid to the Directors for the year ended 30 June 2016, excluding retiring allowances, was $327,952.

The remuneration of the Directors can be found on page 90.

PRINCIPLE 6 – RISK MANAGEMENT

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

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

The Board is responsible for overseeing and approving the risk management framework and tolerance levels as well as ensuring that an effective assurance system is in place. Other key risk management policies in place include the treasury policy and delegated authority policy.

Assurance

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

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

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

PRINCIPLE 7 – AUDITORS

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

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

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

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

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

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

PRINCIPLE 8 – SHAREHOLDER RELATIONS

Cavalier is focused on fostering constructive relationships with shareholders that encourage them to engage with the entity and values dialogue with institutional and private investors.

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

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

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

PRINCIPLE 9 – STAKEHOLDER INTERESTS

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

Disclosures under the Companies Act 1993

Year ended 30 June 2016

DIRECTORS

The Directors of the Company as at 30 June 2016 were:

Grant Biel
Steve Bootten
Sarah Haydon
Dianne McAteer
John Rae

Alan James and Graeme Hawkins ceased to be Directors on 10 July 2015 and 31 March 2016 respectively.

Steve Bootten, Dianne McAteer and John Rae were appointed to the Board of Directors on 10 July 2015.

INTERESTS REGISTER

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

Use of company information

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

Remuneration

The following authorisations in respect of Directors' remuneration were made during the year:

Date	Details
7 August 2015	Directors' fees of $48,000 per annum payable to each of Steve Bootten, Dianne McAteer and John Rae with effect from their date of appointment to the Board of Directors Directors' retiring allowance of $70,000 payable to Alan James on his retirement from the Board of Directors [1]
20 August 2015	Increase in directors' fees payable to Sarah Haydon from $48,000 to $96,000 with effect from the date of her appointment to the role of Chairman of the Board of Directors
18 March 2016	Directors' retiring allowance of $96,000 payable to Graeme Hawkins on his retirement from the Board of Directors [1]
29 April 2016	Increase in directors' fees payable to Steve Bootten from $48,000 to $54,000 with effect from the date of his appointment to the role of Chairman of the Audit Committee

[1] These retiring allowances were paid in accordance with an arrangement that is contained in the Company's constitution entitling the long-serving Directors to lump sum retiring allowances. More information about entitlement to retiring allowances can be found on page 70 of the Annual Report (note 8g of the Notes to the Financial Statements).

Indemnity and Insurance

The Board of Directors authorised, on 31 July 2015, the Company's entry into deeds of indemnity, access and insurance with each of Steve Bootten, Dianne McAteer and John Rae.

The Board of Directors also authorised, on 24 June 2016, the Company's renewal of the directors' and officers' liability insurance policies for the period from 1 July 2016 to 30 June 2017.

The total cost of these policies – which cover the risks arising out of the acts or omissions of the Directors and employees of the Company and its subsidiaries to the extent normally covered by such policies – is $22,280.

Disclosures under the Companies Act 1993 continued

Year ended 30 June 2016

INTERESTS REGISTER continued

Share dealing

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

Directors' relevant interests in shares in the Company as at 30 June 2016 were:

Grant Biel	
Beneficial	–
Other	8,467,642
Sarah Haydon	
Beneficial	10,000
Other	–

Specific disclosures of interest

No specific disclosures of interest were received during the year.

General disclosures of interest

General disclosures of interest that were current as at 30 June 2016 were:

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

Disclosures under the Companies Act 1993 continued

Year ended 30 June 2016

INTERESTS REGISTER continued

General disclosures of interest continued

Dianne McAteer	Beds R Us	Chairman
	Netball Northern Zone (Incorporated Society)	Chairman
	Greater Auckland Netball Limited	Chairman
	Kitchen Studio Distribution Limited	Director
	Kitchen Studio Franchise Services Limited	Director
	Kitchen Trust Company Limited	Director
	KSD Christchurch Limited	Director
	World Masters Games 2017 Limited	Director
	West Auckland Trust Services Limited	Director
	Stepchange Consulting Limited	Director and shareholder
	Darden Holdings Limited	Director and shareholder
	Darden Limited	Director and shareholder
John Rae	Smart Environmental Limited	Chairman
	Activate Tairawhiti Limited	Chairman
	Eastland Group Limited	Director
	Eastland Port Limited	Director
	Eastland Network Limited	Director
	The Lines Company Limited	Director
	Ngapuhi Asset Holding Company Limited	Director
	The National Infrastructure Advisory Board	Director
	NZ Council for Infrastructure Development	Director
	Gisborne Airport Limited	Director
	Abodo Limited	Chairman of Advisory Board
	Kingyo Foods Limited	Director and shareholder as nominee
	Gobble Limited	Director and shareholder as nominee
	F J Hawkes and Co. Limited	Director and shareholder
	Jaffa Holdings Limited	Director and shareholder
	Activate Tairawhiti Charitable Trust	Trustee
	Activate Tairawhiti Regional Development Trust	Trustee
	JR Family Trust	Trustee

Disclosures under the Companies Act 1993 continued

Year ended 30 June 2016

DIRECTORS' REMUNERATION

The total remuneration and value of other benefits earned by each of the Directors of the Company for the year ended 30 June 2016 were:

Grant Biel	$48,000
Steve Bootten	$48,355
Graeme Hawkins[1]	$136,500
Sarah Haydon	$94,838
Alan James[2]	$72,581
Dianne McAteer	$46,839
John Rae	$46,839

[1] includes retiring allowance of $96,000 paid on his retirement from the Board of Directors

[2] includes retiring allowance of $70,000 paid on his retirement from the Board of Directors

EMPLOYEES' REMUNERATION

The number of employees of the Company and its subsidiaries whose remuneration and value of other benefits for the year ended 30 June 2016 fall into the various brackets specified by the Companies Act 1993 is as follows:

Remuneration and value of other benefits ($)	Number of employees
100,000 – 109,999	12
110,000 – 119,999	14
120,000 – 129,999	8
130,000 – 139,999	5
140,000 – 149,999	5
150,000 – 159,999	5
160,000 – 169,999	–
170,000 – 179,999	2
180,000 – 189,999	5
190,000 – 199,999	–
200,000 – 209,999	–
210,000 – 219,999	1
220,000 – 229,999	1
230,000 – 239,999	1
240,000 – 249,999	–
250,000 – 259,999	–
260,000 – 269,999	–
270,000 – 279,999	1
280,000 – 289,999	1
290,000 – 299,999	1
300,000 – 309,999	–
310,000 – 319,999	1
320,000 – 329,999	2
540,000 – 549,999	1
Total number of employees	**66**

Disclosures under the Companies Act 1993 continued

Year ended 30 June 2016

DONATIONS

Refer to page 43 of the Annual Report (note 3e of the Notes to the Financial Statements).

AUDIT FEES

Refer to page 43 of the Annual Report (note 3e of the Notes to the Financial Statements).

SUBSIDIARY COMPANY DIRECTORS

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

Subsidiaries	Directors
Cavalier Bremworth Limited 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 Radford Yarn Technologies Limited Norman Ellison Carpets Limited Carpet Distributors Limited Horizon Yarns Limited NEC Limited	Paul Alston
Cavalier Holdings (Australia) Pty. Limited Cavalier Bremworth Pty. Limited Kimberley Carpets Pty. Limited Norman Ellison Carpets Pty. Limited Cavalier Bremworth (Australia) Limited Cavalier Commercial Pty. Limited (previously Ontera Modular Carpets Pty. Limited) Cavalier Commercial Limited (previously Ontera Modular Carpets Limited)	Paul Alston Cathy Howitt

Colin McKenzie resigned as a Director of all these companies during the year.

Dean Harriott resigned, and Cathy Howitt was appointed, as a Director of Cavalier Commercial Pty. Limited and Cavalier Commercial Limited during the year.

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

There were no entries in the interests register in respect of any of the subsidiary company Directors. The remuneration and value of other benefits of these Directors is disclosed under employees' remuneration on page 90.

Disclosures under the New Zealand Exchange Main Board Listing Rules

As at 31 August 2016

ANALYSIS OF SHAREHOLDINGS

	Number of Shareholders	%	Shares Held	%
Size of shareholdings				
Up to 199	103	2.60	8,677	0.01
200 – 499	151	3.80	51,951	0.08
500 – 999	267	6.73	188,072	0.27
1,000 – 1,999	653	16.45	902,291	1.31
2,000 – 4,999	1,126	28.37	3,480,735	5.07
5,000 – 9,999	752	18.95	5,072,749	7.39
10,000 – 49,999	775	19.53	14,581,185	21.23
50,000 – 99,999	80	2.02	5,150,790	7.50
Over 99,999	62	1.56	39,242,648	57.14
	3,969	**100.00**	**68,679,098**	**100.00**
Location of shareholders				
New Zealand	3,844	96.85	67,221,565	97.88
Overseas – Australia	71	1.79	882,810	1.29
– Others	54	1.36	574,723	0.84
	3,969	**100.00**	**68,679,098**	**100.00**

	Shares Held	%
Top 20 shareholders		
Chippendale Holdings Limited	9,174,312	13.36
Rural Aviation (1963) Limited	8,467,642	12.33
FNZ Custodians Limited	3,278,694	4.77
New Zealand Central Securities Depository Limited	2,787,962	4.06
Superlife Trustee Nominees Limited (SL NZ A/c)	2,384,313	3.47
Warwick Bruce Norman, Averil Rosemary Norman and Norman Trust Limited (Norman Family A/c)	1,100,000	1.60
Forsyth Barr Custodians Limited (1-Custody)	863,170	1.26
Masfen Securities Limited	787,500	1.15
Graham James Munro and Zita Lillian Munro	570,000	0.83
Michael Lookman and 187 Bridge Trustees 53 Limited (Lookman Family A/c)	500,000	0.73
Marama Trading Limited	436,406	0.64
Heatherfield Investments Limited	400,000	0.58
Alan Michael James and Ann White James (JWJ Super Fund)	373,045	0.54
Raymund Wayne Lyons and Tracy Lee Lyons	360,000	0.52
Nicolaas Johannes Kaptein	300,000	0.44
Custodial Services Limited (A/c 3)	289,186	0.42
Andrew John Fleck	250,000	0.36
J & D Sands Limited	250,000	0.36
Brian Grove Spackman and Murray Gordon Wells (Brian Spackman Family A/c No 2)	250,000	0.36
William John Robinson	246,696	0.36
	33,068,926	**48.15**

→ Return to contents page

Disclosures under the New Zealand Exchange Main Board Listing Rules continued

As at 31 August 2016

NEW ZEALAND CENTRAL SECURITIES DEPOSITORY LIMITED

New Zealand Central Securities Depository Limited provides a custodial depository service to offshore and institutional shareholders and does not have a beneficial interest in the shares registered in its name. The beneficial owners of the shares registered in its name as at 31 August 2016 were:

	Shares Held	%
Accident Compensation Corporation	1,910,000	2.78
JPMorgan Chase Bank NA NZ Branch – Segregated Clients A/c	550,008	0.80
New Zealand Permanent Trustees Limited	250,000	0.36
HSBC Nominees (New Zealand) Limited	25,000	0.04
Courtenay Nominees Limited	21,000	0.03
Citibank Nominees (New Zealand) Limited	10,000	0.01
BNP Paribas Nominees (NZ) Limited	9,700	0.01
ANZ Custodial Services New Zealand Limited	6,580	0.01
National Nominees New Zealand Limited	5,674	0.01
	2,787,962	**4.06**

DIVERSITY POLICY

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 gender diversity within the Group:

	30 June 2016			30 June 2015		
	Male	Female	Total	Male	Female	Total
Directors	3/60%	2/40%	5/100%	3/75%	1/25%	4/100%
Officers [1]	5/63%	3/37%	8/100%	3/100%	–	3/100%
Direct reports of officers	25/78%	7/22%	32/100%	15/75%	5/25%	20/100%

[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 Financial Markets Conduct Act 2013

As at 30 June 2016

SUBSTANTIAL HOLDINGS

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

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

The total number of ordinary shares, being the only class of listed voting securities in the Company, as at 30 June 2016 was 68,679,098.

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

Corporate Directory

BOARD OF DIRECTORS

Grant Biel B.E. (Mech.)
Non-independent
Member of Audit, Remuneration and Nomination Committees

Steve Bootten ACA, FCIS, FCIM, MInstD
Independent
Chairman of Audit Committee
Member of Remuneration and Nomination Committees

Sarah Haydon B.Sc., ACA, CMInstD
Independent
Chairman of the Board of Directors
Chairman of Nomination Committee
Member of Audit and Remuneration Committees

Dianne McAteer B.Com., MBA, CMInstD
Independent
Member of Audit, Remuneration and Nomination Committees

John Rae B.Com., LLB
Independent
Deputy Chairman of the Board of Directors
Chairman of Remuneration Committee
Member of Audit and Nomination Committees

CHIEF EXECUTIVE OFFICER

Paul Alston BBS, CA

CHIEF FINANCIAL OFFICER

Sarah Hipkiss B.Com., CA

COMPANY SECRETARY

Victor Tan CA, FCIS

FOUNDING SHAREHOLDER

The late **Anthony Charles 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, Auckland 0622
Private Bag 92119, Auckland 1142
Telephone: 64-9-488 8700
Facsimile: 64-9-488 8787
Investor Enquiries: 64-9-488 8777

AUDITORS

KPMG

LEGAL ADVISORS

Russell McVeagh

BANKERS

Bank of New Zealand

National Australia Bank Limited

→ Return to contents page

Corporate Directory continued

CARPET OPERATION

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

WOOL OPERATION

General Manager Wool Acquisition	Shane Eades

WEBSITES

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

Shareholder Information

ANNUAL MEETING OF SHAREHOLDERS

Time and date	10 a.m., Tuesday, 22 November 2016
Venue	Level 4, South Stand, Eden Park, Reimers Avenue, Auckland

CORPORATE CALENDAR

22 November 2016	2016 Annual Meeting of shareholders
31 December 2016	End of 2017 half year
Mid-February 2017	Announcement of 2017 half year result
Mid-March 2017	Release of 2017 half year report
30 June 2017	End of 2017 financial year
Late August 2017	Announcement of 2017 annual result
September 2017	Period for director nominations
End of September 2017	Release of 2017 Annual Report

SHARE REGISTRAR

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

FINANCIAL MARKETS CONDUCT ACT 2013 NOTICE

Cavalier Corporation Limited (NZBN: 9429039934703) of 7 Grayson Avenue, Papatoetoe, Auckland 2014, advises that it will automatically transition to the Financial Markets Conduct Act 2013 (FMCA) with effect from 1 December 2016.

On and from that date, all the requirements of the FMCA will apply to the Company.

The Company is already governed by the FMCA financial reporting and fair dealing requirements, among other things.

Doreen Roache Verena Taylor Shileen Ferris AJ Pualau Rick Grant Roger Hofmann

Philip Jermy Wayne Bennett Brian Drinkwater Liz Godfrey Robert Barron Rocky Leon

Paddy Miller Faamao Taiivao Junior Vatau Toe Tua James Spooner Craig Chapman

John Pervan Ken Turner Steve Prichard Keith Mitchell Doug Marsters Gary Raison

Andrew Tahau Sione Ika Glenda Paenga Richard Pereniko Donna Whatu Murray Parker

Andrew Taylor Hamish Murcott Alan Lynch Alyssandra Manu Sally Heka Peter Mael

Max Price Chao Sun Victor Tan Telesia Tuivaiave Kevin Burney Doug Carlson

Debbie Baker Betty Brass Tango Michael Ingham Garth Clarke Bruce Watson

Emily Cornwall Mike Manu Paepae Maiava Caroline Hazel Bowman Ponga Jay Dehar

Amy Schofield Sabrina Patea Nicholas Shaw Din Hiku Amit Gupta Dave Takiaho

Roger Hall Naseri Masani Jeremy Tuck Paul Haami Tim Jamieson David Bryson Karl Berg

Patrick Williams Dayle Osgood Joe Wilks Tony Yee Shum Te Huia Mina Bell Davina Ponga

Sheryn Rerekura Ian Turner Jenna Hayward Lettisha Karafilis Nigel Spenceley

Alo Luaao Mo Reti Stanley Yee Douglas Young Alipate Siu Neil Warren Mereana Taripo

Gurpreet Toor Sarah Hipkiss Ina Bennett Nicko Ponga Dean Henry Tamalii Olive

Nigel Norton Sharmila Prasad Regan McCarthy Brian Luty Patrick van Son

Robert Haren Michael Richardson Aaron McPhee Iain Macleod Peter Pupu Maria Corby

Ben Buckley Warren Welch Glen Simpson Wayne McGillen John Van Elswijk

Dianne McAteer Ian Smith Nazrin Begum Lita Tupou Livvie Dong Jason Araia Sue Hunter

Tammy Panek Karolyn Stok Sarah Haydon Mike Arlidge Liana Foster Amy Kersten

Susan Taefu Doreen McKeown Dale Arrowsmith Bob Secomb Jenna Parker Peter Duxfield

Daniel John Chris Schaumkel Poima Taelega-Faalelea Di Bryant Rima Mitchell

Grant Carson Rory Aroa Aaron Van Lieshout James Wilson Dale Jamieson Nic Coxen

Vipin Mundancheril Ann Adams Panha Kree Paul Blanken Raina Polokaka Brent Harrison

David Tahana Dean Aitken Mike Feagaiga Ben Garnham Jim Tait Farin Farisha Lagi Lilo

Ben Tulafono Raymon Chooi Tina Ngarotata Paul Alston Patrick Tata John Rae

Nui Tihau Frankie Wainohu Michelle Robinson Angelo Gaggiano Clyde Edwards

Carol Matamata Richie Cassin Michelle Christison Zain Fareez Tamsyn Hansen-Hill

Cin Stuart Rebecca Bourne Ian Williamson Umlesh Kumari Satya Gounder Filisita Williams

Rob Smith Trevor McBrearty Karen Sundman Sada Prasad Kathy Keegan Stuart Gill

Coral Taurima Phil Leyland Panapa Kemp Mat Mataio Anne Ualiu Te Rangi Bennett

Fiapito Tusani Nigel Worthington Vicki Lunt Vanessa Hales Kevin McBrearty Michael Burn

Elaine Klopper Sally Harrison Scott Bain Motuna Taefu David Falanaki Min Bristol

Mike Walker Leo Singh Graham Nimmo Melissa Hong Sophie Belliveau Ross McKimmon

“A business transformation, with the culture change that it requires, needs buy in from staff. They are exceptionally proud of what we do and want to be better enabled to help us grow and succeed.”

Paul Alston
Chief Executive Officer

William Kabakaba Grace Brown Sammy Tongotongo Diamond Ropiha Tangi Charlie Lauren Andrews Monique Levesque

Glenys Goodwin Jenny Davidson Josh Bradshaw Misi Tuala Dan Murray Carl Culpan Kim Fallens Jennifer Tongotongo

Scott Walters Gabriella Bombaci Paki Neels Darren Gore Eti Silva Alan Brough Ruta Iakopo Ashwin Kumar Reuben Hirini

Kirsteen Peapea Katrina Takie Sali Pearson Nga Riki Ben Earnshaw Mark Zimmermann Kirsty Courtney Gay Richardson

Terry Papworth Rochelle Miller Allan Munro Gordon Porter Leonie Warner Kylie Austin Alison MacDonald Darling Piho

Sesilia Iosefo Rita Luke Bruce MacKintosh Allan Gilling Ashween Kumar Raj Kumar Courtney Hawker Scotty Scott

Ana Leuatea Pula Taliu Keith Lodge James Xu Pike Sietu Ferdie Esclamado Warren Drinkwater Kim Thompson Mike White

Perry Parnham Doug Bowen Pelenato Afoa Nathan Secomb Chris Bristol Grant Biel Fleur Mayfield Robert Ballantyne

Folole Fualau Lata Cherrington David Clark Steve Duncan Warren Goodman Kerrie O'Connor Seko Taavili Mii Tutira

Sumit Rana Len Ratu Pania Neels Nga Haunga Ben Paea-Nicholson Juan Castillo Lesley Raharuhi Ian Ford

James Crawley Jim Comp Jon Dunkley Jason Kawau Rick Delmarter Susan Leslie Lanitalo Latu Kaliamma Gounder

Thomas Peipi Heather Masiutama John Williams Sharon Murdoch Steve Hart Kevin Farquhar Rochelle Flint

Linda Arbuckle Aniliua Ualiu Hingano Totiuti Lucy Kawau Alison Haerewa Tony Waters Kino Heremaia Chris Young

Gary Griffiths Sheldon Waretini John Kaafi Steve Bootten Peapea Peapea Rosina Gill Kristen Barron Fabian Phillips

Duncan Ross Kurt Kelsey Denise Goldsack Litty King Nigel Foubister Andy Walker Ronald Williams Kerry Hills

Junior Taurima Denzell Bennett Nike Anioka Malcolm Wells Gus Ratahi Jennifer Buchanan Brandon Garton

Chris Nabney Tevisa Tufa Luke Robbins Jono Collins Navin Gounder Matagiua Sifaheone Cathy Dane Terry Tusani

Suzanne Savarin Woody Radford Selwyn Savage Kerry Bromell Mel Purcell Lufi Cubitt Stephen Christensen Jack Davis

Mudgie Mudgway Linda Hitchcock Taylor Namulau'ula Dean Chandler Jodie Clark Lou Trautvetter Lance Colello

Tara McLelland Sony Singh Ian MacKenzie Sue Dunn Peter McAllister Malcolm Mott Malama Amituanai Coran Pemberton

Nadine Pickering Trevor Jones Michael Merrick Gary Olchoway Kristine MacDonald Michael Heath Fred Makahununiu

Margaret Haami Noa Lea'aemanu Jason Howearth Shelley Crosato Michael Bristol Savali Sala Lagaaia Monique Richardson

Kushma Kumar Ben Massey Rodrigo Resma June Sun Irfan Mirza Iosefa Loto Charles Martin Tala Tullock Stewart Nash

Telesia Matulino Elaine Pasifa Andrew Karl Lyndon McDonald Mark van Zoest Kristian Hansen Tyrone Haimona-Carroll

Douglas Hastings Michael Wati Anish George Meena Patel Harry Matthews Ash Jensen Francis Mathews Logo Vaeafe

Edward Connell Karena Hawea Barbara Warren Rossana Bueno Nick Robinson Jim McIlroy Sue Stewart Adrian Kiwara

Petiola Lea'aemanu Graeme Harley Murray Jackson Grant Townend Tina Nansen Kathy Mao Gordon Smith Bruce Fright

Robbie Alabaster Carl Hoskin Allison Parry Alex Hawke Thomas Daniel Sikaleti Kafa Dezma Haimona Destiny Williams

Grant Wrightson Sergei Latyshev Venessa Cooper Sheryl Cooper Alan Morris Linda McNatty Wayne Byelich Craig Wallis

Vince Patea Bob Jordan Turu McIlroy Simona O'Kane Karen Travers Joanne Baynes Peter Ropotini Antoinette Stewart

Leianne Hartley Kopo Ikiua John Hohaia Caroline Challis Ivan Pannone Keke Lesa Ruisa Potoru Emile Faapusa James Hetaraka

Louis Heria-Hareti Jared Adam Jarrol Samuels Cameron Jack Navneet Nair Stan Brown Sarah Simons Chris Pattison

Renae Hona Terence Akroyd Neil Cook Brendon Lingard Fogalele Pritchard-Apulu Paulette Martin Atilua To'o Acacia Lodge

Arash Singh Joy Rollinson Manu Seuula William Puhara Boof Puohotaua Josaia Buakula Verna Kingi Brent Bayly

CAVALIER
CORPORATION