CAVALIER
CORPORATION

2014/15 ANNUAL REPORT
YEAR ENDED 30 JUNE 2015

"We have developed a clear strategic direction and are now well-advanced with the implementation of our plans. The end result will be a tightly focussed and profitable operation – underpinned by a stronger balance sheet and with net bank debt expected to be somewhere between \$35 and \$40 million by the middle of the 2016 financial year, compared with \$53.9 million at the end of June 2015."

Sarah Haydon, Chair

As required by section 211(1)(k) of the Companies Act 1993, the 2015 Annual Report of Cavalier Corporation Limited is signed on behalf of the Board of Directors on 18 September 2015 by:

Sarah Haydon – Chair

Graeme Hawkins – Director

BELTWAY (COVER) AND LIMELIGHT (IFC)

Two of the hightwist cut piles made from the recently-launched and highly durable Enduro solution-dyed nylon fibre. Together with Embankment, they represent the three newest family-friendly additions to the Habitat Collection, Cavalier's exclusive range of premium solution-dyed nylon carpets.

OVERTONES
The smart-looking, chunky loop pile, using thick and thin yarns to create a random striated effect throughout the carpet, making it ideal for busy households and for hospitality installations.

2014/15 IN BRIEF

REVENUE

$216 million,

up 7.5%/$15 million on previous year's $201 million, with carpet revenue up $11 million and wool and yarn revenues up $4 million.

REPORTED RESULT AFTER TAX

$25.7 million loss,

compared with previous year's profit of $5.8 million - largely as a result of the write-down of assets, particularly in the Australian tile business, and other restructuring costs.

NORMALISED TAX-PAID EARNINGS[1]

79.3% decrease

from $5.8 million the previous year **to $1.2 million,** mainly because of the loss-making tile business which struggled to compete against the large influx of imported alternatives in the price-driven market.

NET INTEREST-BEARING DEBT

$4.9 million/8.3%

decrease in net interest-bearing debt from $58.8 million **to $53.9 million**, attributable mainly to the inventory reduction programme put in place

Net interest-bearing debt : equity increased from 39 : 61 to 45 : 55 as a consequence of the extent of asset write-downs during the year.

FINANCIAL POSITION

39.1% proprietorship ratio, compared with 46.9% the previous year.

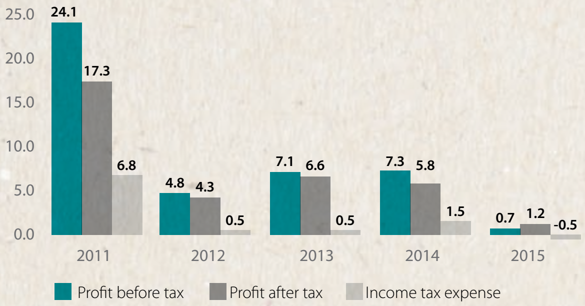
STRATEGIC REVIEW

Completion **of comprehensive strategic review** covering every aspect of our business, identifying and considering, in the process, a wide range of options to **improve performance** from current unacceptable levels.

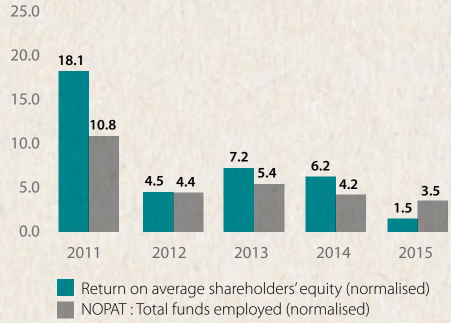
FINANCIAL OVERVIEW

YEAR ENDED 30 JUNE 2015

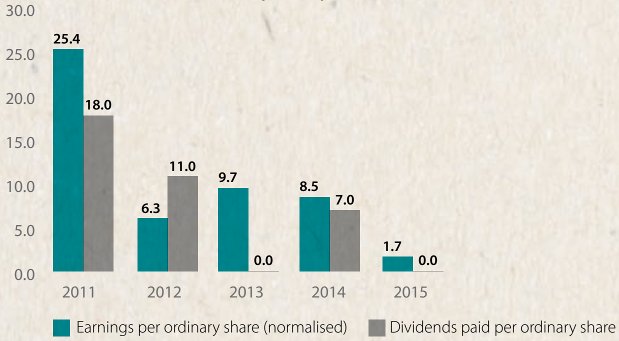
Financial results (normalised) ($ millions)[1]



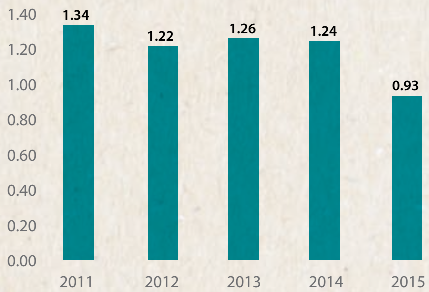
Return on average shareholders' equity and NOPAT : Total funds employed (%)[1]



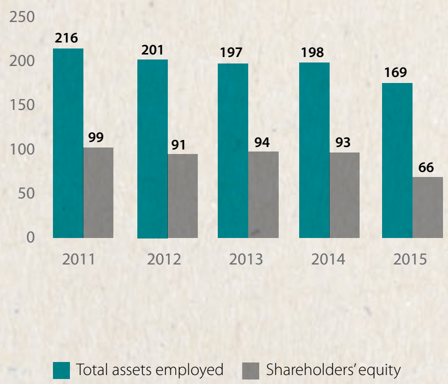
Earnings and Dividends paid per ordinary share (cents)[1]



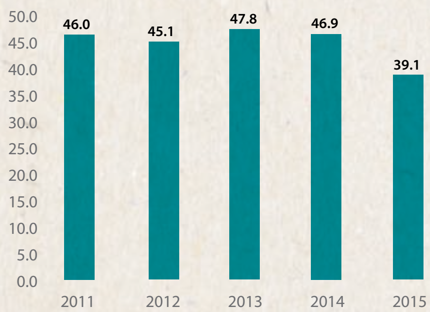
Net tangible asset backing per ordinary share ($)



Total assets employed and Shareholders' equity ($ millions)



Proprietorship ratio (%)



[1] All references to "normalised" are to the normalised results used in the underlying calculations. Normalised is a non–GAAP (Generally Accepted Accounting Practice) measure. A reconciliation between reported and normalised can be found on pages 87 and 88 of the Annual Report.

YEAR AT A GLANCE

VOTED NEW ZEALAND'S MOST TRUSTED CARPET BRAND AGAIN...

Cavalier Bremworth has again been voted the 'most trusted carpet brand' in the 2015 Reader's Digest customer survey. The company won the title last year when the carpet category was first introduced.

"At Cavalier Bremworth, quality is at the heart of everything we do," said marketing manager Rochelle Flint.

"We're a proud New Zealand company that cares about our products and we stand behind what we make."

Results from the 2015 Reader's Digest survey showed that the key words associated with Cavalier Bremworth were durability, well-known, quality and longevity.

"We've been making carpet for more than 55 years so we're thrilled that Kiwis have recognised our efforts once again to make the very best carpet in New Zealand," she said.

Feedback from the 2015 survey was very supportive:

"Seems to always have good things said about it by those who have bought it."

"Never let me down"

"Beautiful carpet, good brand"

CHRISTCHURCH RETAILER TAKES OUT TOP HONOUR

Christchurch retailer nextdore has won the Independent Dealer of the Year Award for 2014.

The award is based on three different criteria that include customer feedback from surveys returned to Cavalier Bremworth, sales growth and level of business conducted with Cavalier Bremworth.

nextdore was also awarded the "People's Choice" award, being voted the best and most supportive retailer by the Cavalier Bremworth sales team.

An awards ceremony was held in Martinborough in March 2015 with the awards being presented by Cavalier Bremworth CEO, Brent Wollaston (*right*), and NZ Sales Manager, Warren Drinkwater (*left*), pictured here with Nick Dore of nextdore.

Distinguished Achiever Awards were presented to Gerrand Floorings Ltd of Mt Maunganui and Ian Hunt Carpets Floorings Extreme from Albany in Auckland.

Two retailers who have sold their businesses after a long career in flooring were also recognised at the awards function. John Kasper of John Kasper Carpets in Remuera, Auckland and Murray Charteris of Murray Charteris Flooring in Hamilton were presented Recognition Awards for their long-term support of Cavalier Bremworth.

NEW ZEALAND'S #1 STAIN REMOVER GETS A MAKEOVER!

New Zealand's #1 dry stain remover is reaching supermarket shelves with its fresh, new look.

Playing on visual cues, the stain remover now has three icons on its front to make the benefits of using the product much clearer and easier to understand.

The icons highlight what the stain remover can be used for – from those dreaded stains such as tea/coffee, vomit/urine to beer/wine.

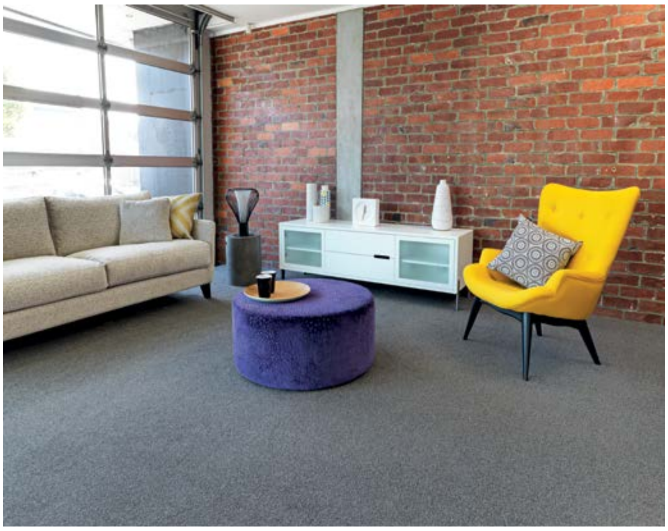
RADFORD FELTED YARN CREATES UNIQUE POINT OF DIFFERENCE

The number of carpet ranges from Cavalier Bremworth using felted woollen yarn is on the increase following demand from consumers wanting more interesting carpets with a unique texture, combined with the underfoot softness that comes with the inclusion of lambswool.

Felting is a process that locks the fibres together to make a stronger and bulkier fibre – in very much the same way as a woolly jumper gets thicker (and smaller) as it goes through the wash! It means that much chunkier yarns can be created with differing colour effects – leading to more unique carpet designs.

ENDURO SDN FIBRE LAUNCHED WITH THREE FAMILY-FRIENDLY CARPETS!

enduro
DESIGNED FOR FAMILY LIFE



Cavalier Bremworth recently announced the launch of **Enduro** - its new solution-dyed nylon fibre that is designed to let you enjoy your lifestyle, not spend your life worrying about your carpet.

It's a specially engineered solution-dyed nylon with strong stain resistance and a tough construction that means it will stay looking good for years to come. It is available in a wide range of colours that will stay vibrant even under our harsh New Zealand sunlight.

Enduro is designed to be easy-care and stand up to the rigours of family life. It's been independently tested for wear and carries an extra-heavy duty grading for residential carpet plus a six-point warranty.

Made from Enduro are three new worry-free cut pile carpets – **Beltway**, **Limelight** and **Embankment** – that have been incorporated into our Habitat Collection. Beltway is a sumptuous heavyweight carpet that comes in eight gorgeous colours, perfect for those seeking luxury underfoot. Limelight is super comfortable and available in 11 workable colours. Embankment is a great option for families – especially those with pets and young children due to its lower pile height. It too comes in 11 colours, giving you the ability to complement these carpets with any style of décor.

SALSA – THE NEW 100% NEW ZEALAND WOOL CARPET WITH A DIFFERENCE!

Just as salsa dancing and music is a mix of different styles, this carpet features a mix of three different coloured yarns - providing great soil hiding properties for busy households and families. The random loops throughout the carpet also create real textural interest that will make a statement on the floor - especially with that very relaxed scandi style that's in right now...

With eight colours available ranging from warm neutrals through to cool greys, Salsa has great variation in the level of contrasting tones that will cater to a wide range of flooring tastes.

SALSA
This supremely soft and durable textured loop pile is your ticket to happy feet.

CHAIR & CHIEF EXECUTIVE OFFICER'S REPORT

YEAR ENDED 30 JUNE 2015

Dear Shareholders,

The year ended 30 June 2015 proved to be another challenging year. It involved major decision points for the Group as we continued to adapt to a changing market place and cope with the volatile currency environment.

During the year, we completed a comprehensive strategic review covering every aspect of our business, identifying and considering, in the process, a wide range of options to improve company performance from its currently unacceptable levels. We prioritised a number of initiatives, and while some have already been completed, others are either in progress or being further developed.

A highlight of this work was confirmation of the strength of the Cavalier Bremworth brand, the quality, durability and longevity that it continues to be associated with and, for the second year running, its place as New Zealand's 'most trusted carpet brand' in the 2015 Reader's Digest customer survey.

Sarah Haydon, Chair

Paul Alston, Chief Executive Officer

GROUP ACTIVITIES

The Group's principal activities comprised the Cavalier Bremworth and Norman Ellison Carpets broadloom carpet businesses, the Ontera carpet tile operation, the Elco Direct wool procurement business and the Radford felted yarn operation during the year ended 30 June 2015.

Auckland-based Cavalier Bremworth and Norman Ellison Carpets have warehousing and distribution facilities in Auckland, Sydney and Brisbane and sales representation in all major cities in New Zealand and Australia.

Ontera Modular Carpets, based in Sydney, is the Group's carpet tile manufacturing, importing and distribution business. This business was sold in September 2015.

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

The Radford felted yarn operation is involved in the manufacturing of premium felted woollen yarns which are sold to high-end rug and carpet makers around the world, including the Group's broadloom carpet operation, Cavalier Bremworth.

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

FINANCIAL PERFORMANCE

The Group recorded an after tax loss of $25.7 million for the year ended 30 June 2015, compared with an after tax profit of $5.8 million in 2014.

The loss includes asset write-downs of $25.7 million and other restructuring costs of $1.2 million, as set out in the table below, following a comprehensive review of the financial position of the Group and the carrying value of its assets (including consideration of market data (for example, market capitalisation)) at balance date.

	$000
Impairment of carpet tile business assets	9,132
Impairment of fixed assets	4,344
Impairment of intangible assets	5,432
Derecognition of deferred tax asset	6,771
Restructuring costs	1,231
	$26,910

The Directors believe that it is appropriate to compare the current year's normalised result (that is, reported profit excluding these write-downs, all which were non-cash in nature, and other restructuring costs) with the previous year's result.

On a normalised basis (which is a non-GAAP measure), profit after tax was $1.2 million (being the $25.7 million after tax loss excluding asset write-downs of $25.7 million and other restructuring costs of $1.2 million), compared with the previous year's $5.8 million.

FINANCIAL PERFORMANCE

Year ended 30 June 2015	2015 $000s	2014 $000s	Change
Revenue	**$215,728**	**$200,642**	**(8%)**
Earnings before interest and tax (Normalised)[1]	2,655	8,760	(70%)
Interest	(3,948)	(3,484)	(13%)
Share of equity-accounted investee profit (Normalised after tax)[1]	2,034	2,044	-
Profit before tax (Normalised)[1]	741	7,320	(90%)
Income tax	454	(1,530)	130%
Profit after tax (Normalised)[1]	**1,195**	**5,790**	**(79%)**
Impairment of assets and derecognition of deferred tax asset	(25,679)	-	-
Restructuring costs	(1,231)	-	-
Profit after tax (Reported)	**$(25,715)**	**$5,790**	**(544%)**
Earnings per share (cents) (Normalised)[1]	1.7	8.5	(80%)
Earnings per share (cents) (Reported)	(37.4)	8.5	(540%)

[1] Normalised is a non–GAAP (Generally Accepted Accounting Practice) measure. Further commentary on the disclosure of non-GAAP financial information can be found on pages 87 and 88 of the Annual Report.

A major contributor to the year-on-year decline in normalised earnings came from the Australian tile business (Ontera) within our carpet segment. High manufacturing costs made it difficult for Ontera to compete in the price-driven market where there has been a large influx of good quality imported alternatives. While the imported tile programme introduced earlier in the year was starting to gain some momentum, the decision to sell Ontera (that was announced and completed after balance date) was one the Company had considered carefully and a move the Directors agreed was in the Group's best interest.

Volume sold in the broadloom carpet business was up 9% on the previous year, and this increase translated into improved revenue. However, with the almost record high New Zealand dollar against the Australian dollar during the year, increasing wool prices and pressure on pricing, margins in the broadloom business suffered as a result.

The wool procurement business had another good year matching the strong performance it achieved in 2014.

The Radford felted yarn operation performed well with revenues similar to the previous year.

The proposed rationalisation of wool scouring through the merger of CWH and New Zealand Wool Services International has been provisionally approved by the Commerce Commission, and we await their final decision. Our share of CWH profits, on a normalised basis (that is, after excluding the significant costs associated with the Commerce Commission approval process), is unchanged on the previous year.

The stronger US dollar and increased wool grease prices should provide an ongoing lift in income from the CWH operation which continues to provide good returns on our investment.

FINANCIAL POSITION

The Group's assets as at 30 June 2015 totalled $169.1 million, a decrease of $28.9 million on the previous year's $198.1 million, largely as a result of the asset write-downs discussed earlier.

While Group net interest-bearing debt at year-end was $53.9million, $4.9 million down on the previous year's $58.8 million, net interest-bearing debt to equity was up from 39:61 the previous year to 45:55 at balance date as a consequence of the extent of asset write-downs during the year.

Shareholders' equity as at 30 June 2015 of $66.2 million was $26.8 million down on 2014, with the reduction summarised as follows:

	$000
Shareholders' equity at 30 June 2014	92,959
Movement in foreign currency translation reserve	1,079
Loss after tax	(25,715)
Movement in the cash flow hedging reserve	(2,113)
Changes in amounts payable to non-controlling interests	(26)
Shareholders' equity at 30 June 2015	**$66,184**

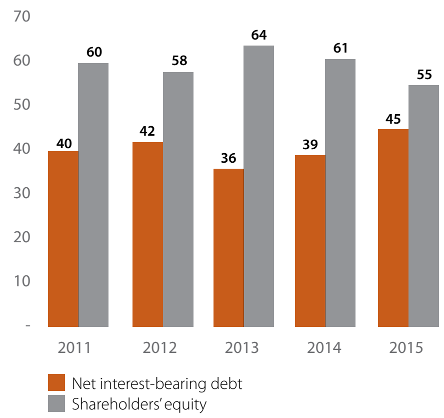
CASH FLOW AND BANK DEBT

Net cash flow from operating activities of $5.4 million was an increase of $4.8 million on the $0.6 million achieved in the previous year.

The focus has been to reduce inventory and costs in recent months, with inventory at balance date $17.0 million lower than the previous year.

Net bank debt at the end of July was under $50 million for the first time in a number of years, and we are expecting net bank debt to substantially reduce further in the 2016 financial year as proceeds from asset sales are received, and cost reduction initiatives start to take effect.

Net interest-bearing debt : equity ratio



STRATEGIC INITIATIVES

Cavalier recently informed shareholders that it was executing a number of key strategic initiatives aimed at reducing bank debt and costs.

These included:

- an agreement to sell the tile business to US-based Milliken and Company;
- completion of arrangements to outsource Australian broadloom carpet warehousing and logistics;
- restructuring of the New Zealand support functions to reduce overhead costs; and
- release of the Sydney broadloom carpet warehousing and office facility for sale.

Sales of both the tile business and the Sydney property have been concluded, with around $6.5 million and $9.5 million respectively being released towards the reducing debt.

The proposal to restructure the New Zealand support functions has also been confirmed, resulting in reduction of around 20 full time positions, savings of employee-related costs of approximately $1.5 million per annum and associated one-off costs of around $0.5 million.

Further initiatives are under consideration that will lead to increased revenues, further reduce debt and costs and a return to acceptable levels of profitability. The Directors will keep shareholders updated as these initiatives are implemented.

DIVIDENDS

We have not declared a dividend for the 2015 financial year as the reduction of bank debt, and the strengthening of the Group's financial position, remains a key priority.

OUTLOOK

Cavalier has continued a process of transformation to respond to significant market shifts in recent times that have affected our key businesses in a challenging economic environment.

Our broadloom business now has a full range of products to satisfy all market needs, both in wool and synthetics. The recent launch of ***Enduro*** – the new solution-dyed nylon fibre that has been engineered to withstand the rigours of family life – adds to Cavalier's increasingly extensive range of synthetic carpets, while Salsa - which features a mix of three different coloured yarns to provide great soil hiding properties for busy households and families – is a recent addition to its 100% New Zealand woollen carpet range. With its strong stain resistance and tough construction, ***Enduro*** has been incorporated into three new independently-tested extra-heavy duty graded residential cut-pile carpets – ***Beltway***, ***Limelight*** and ***Embankment*** - under the Habitat Collection.

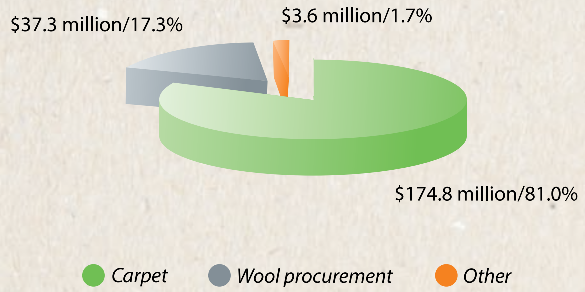
We have made appropriate personnel appointments at both governance and management levels and developed a clear strategic direction.

We are now well-advanced with the implementation of these plans, with the end result a tightly focussed and profitable operation – underpinned by a stronger balance sheet and with net bank debt expected to be somewhere between $35 and $40 million by the middle of the 2016 financial year, compared with $53.9 million at the end of June 2015.

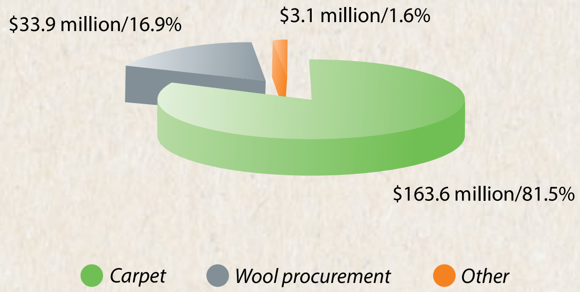
The Directors will give shareholders an indication of the full year earnings outlook at the Annual Meeting of shareholders on 24 November 2015, given that it is too early in the financial year to be providing shareholders with meaningful guidance at this time.

LISBURN
This linen-look loop pile has both softness and substance - beautiful to the eye while providing excellent durability. It has a strong neutral palette in keeping with its organic origins.

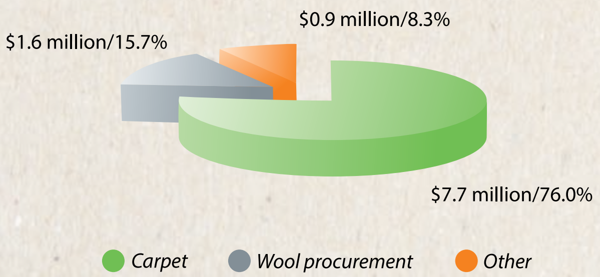
Contribution to Group operating revenue 2014/15



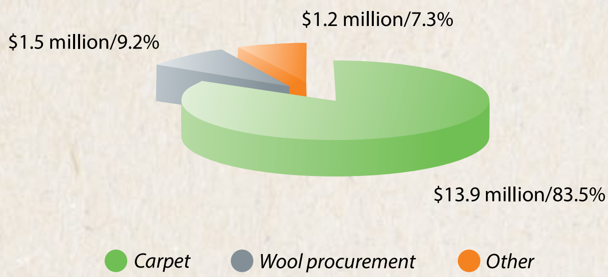
Contribution to Group operating revenue 2013/14



Segment result before interest, tax, depreciation and restructuring costs 2014/15



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



CHANGES TO THE BOARD

During the year, a review was undertaken to determine the skills and experience required to support our future strategy, and we are delighted that we will be able to draw on the experience of Steve Bootten, Dianne McAteer and John Rae - who joined the Board on 10 July 2015 - as we continue our change process.

Steve Bootten has experience as a company director in both New Zealand and Australia. He is currently a director of Hampden Fence Limited, Framecad Holdings Limited and Oriziba Holdings Limited. His previous directorships included Kapiti Coast Airport Limited, Paraparaumu Airport Holdings Limited and Tasman Building Products Limited. An accountant with a strong commercial background, he held significant executive roles with DB Breweries and CEO roles with Robinhood Limited and Kapiti Coast Airport. Steve brings to the Board strong financial skills and manufacturing experience.

Dianne McAteer is currently a director of World Masters Games 2017, West Auckland Trust Services Limited, Kitchen Studio Distribution Limited and Northern Netball Zone (Chair). Previous governance roles include the Breast Cancer Research Trust and Auckland Property Investors Association. She has held significant executive roles including CEO Office Products Depot, MD House of Travel subsidiary Travelplan Limited and GM Visique Optometrists. Her experience in retailing, marketing and business development is a valuable addition to the Board. Dianne has a B.Com. and MBA from the University of Auckland.

John Rae is an experienced company director, currently on the boards of Eastland Group, The Lines Company Limited, Ngapuhi Asset Holding Company Limited, Smart Environmental Limited (Chair), The National Infrastructure Advisory Board, NZ Council for Infrastructure Development (Chair) and Activate Tairawhiti Limited (Chair). John Rae brings significant CEO and corporate finance experience to the team. He has a B.Com. and LLB from the University of Auckland.

Alan James– who had previously indicated that he was contemplating retiring from the Board – ceased to be a Director effective 10 July 2015. Alan had a long history with the Company, having been involved with Cavalier since 1993 when he joined as Chief Executive Officer and Managing Director before going on to assume the role of Chair in 2004.

We thank Alan for his contribution, leadership and dedication to the Company and to wish him a happy retirement.

Graeme Edmond and Colin McKenzie also ceased to be Directors during the year.

CHIEF EXECUTIVE OFFICER

We would like to thank Colin for leading the Company as Managing Director and Chief Executive Officer from March 2012 to May 2015. Paul Alston was appointed interim Chief Executive Officer in May 2015 in addition to his role of Chief Financial Officer.

ACKNOWLEDGEMENTS

We thank our customers for their strong support of our brands and commitment to the Group over the past year.

And finally - a big thank you to all members of our team for their hard work and dedication.

Sarah Haydon
Chair
18 September 2015

Paul Alston
Chief Executive Officer
18 September 2015

KENNEDY POINT

Kennedy Point is a stylish new release, using Radford felted yarn exclusive to Cavalier Bremworth. As a textured loop pile, it provides both durability and softness with the use of lambswool.

Its unique structure is given more interest by a felted colour slub which creates a random striated effect. The result is beautiful to the eye, paired with a lovely underfoot experience. From classic neutral tones to a stunning duck-egg blue, Kennedy Point is sure to add a point of difference to any home.

BOARD OF DIRECTORS

G C W (Grant) Biel

B.E. (Mech.)

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

S R (Steve) Bootten

ACA, FCIS, MInstD

- Independent Director
- Appointed July 2015
- Member of the Board's Audit, Remuneration and Nomination Committees
- **Other directorships include** – Hampden Fence Limited (Chair), Framecad Holdings Limited and Oriziba Holdings Limited

G S (Graeme) Hawkins

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

- Independent Director
- Appointed October 1998
- Chair of the Board's Audit Committee and member of the Board's Remuneration and Nomination Committees

S E F (Sarah) Haydon

B.Sc., ACA, CInstD

- Independent Director
- Appointed August 2012
- Chair of the Board of Directors
- Chair of the Board's Remuneration and Nomination Committees and member of the Board's Audit Committee
- **Other directorships include** – The Institute of Geological and Nuclear Sciences Limited, The Co-operative Bank Limited, Co-operative Life Limited and New Zealand Riding for the Disabled Association (Chair)
- Council member of Unitec Institute of Technology

D V (Dianne) McAteer

B.Com., MBA

- Independent Director
- Appointed July 2015
- Member of the Board's Audit, Remuneration and Nomination Committees
- **Other directorships include** – World Masters Games 2017, West Auckland Trust Services Limited, Kitchen Studio Distribution Limited and Northern Netball Zone (Chair)

J M (John) Rae

B.Com., LLB

- Independent Director
- Appointed July 2015
- Member of the Board's Audit, Remuneration and Nomination Committees
- **Other directorships include** – the Eastland Group of companies, The Lines Company Limited, Ngapuhi Asset Holding Company Limited, Smart Environmental Limited (Chair), The National Infrastructure Advisory Board, NZ Council for Infrastructure Development (Chair) and Activate Tairawhiti Limited (Chair)

CORPORATE GOVERNANCE STATEMENT

YEAR ENDED 30 JUNE 2015

ROLE OF THE BOARD

The role of the Board is to effectively represent, and promote the interests of, shareholders with the objective of adding long-term shareholder value.

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

- ensuring that the Company's values, vision and mission are clearly established, and strategies are in place for achieving them (such strategies being expected to originate, in the first instance, from management);
- establishing policies for strengthening the performance of the Company including ensuring that management is proactively seeking to build the business through innovation, initiative, technology, new products and new markets;
- monitoring the performance of management;
- 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;
- 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 Company adheres to high standards of ethics and corporate behavior;
- ensuring the Company has appropriate risk management and regulatory compliance policies in place; and
- satisfying itself that the Company is achieving, or otherwise taking corrective actions to achieve, its stated objectives.

In the normal course of events, responsibility for the day-to-day management of the Company is delegated to the CEO.

COMPOSITION OF THE BOARD

As at 30 June 2015, the Board comprised four non-executive Directors – Alan James (Independent Director and Chair of the Board), Grant Biel (Non-independent Director), Graeme Hawkins (Independent Director) and Sarah Haydon (Independent Director).

Graeme Edmond (Independent Director) and Colin McKenzie (Managing Director and Chief Executive Officer) ceased to be Directors during the year ended 30 June 2015.

Sarah Haydon was appointed Chair 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.

Pursuant to NZX Main Board Listing Rule 3.3.1, the minimum number of Directors shall be three, with at least two ordinarily resident in New Zealand and a minimum number of two independent Directors (or, if there are eight or more Directors, three or one-third – rounded down to the nearest whole number of Directors - of the total number of Directors, whichever is the greater).

The Board has determined, pursuant to NZX Main Board Listing Rule 3.3.2, that Alan James, Graeme Hawkins and Sarah Haydon were independent Directors of the Company as at 30 June 2015 and that Steve Bootten, Graeme Hawkins, Sarah Haydon, Dianne McAteer and John Rae are independent Directors of the Company as at the date of this Annual Report.

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

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

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

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

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

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

BOARD MEETINGS

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

The attendance record of the Directors at the ten scheduled Board meetings, and the 14 special Board meetings, held during the year ended 30 June 2015 is as follows:

	Attendance record	
	Scheduled	**Special**
Grant Biel	10/10	14/14
Graeme Edmond – ceased to be Director 13 March 2015	6/6	6/7
Graeme Hawkins	10/10	14/14
Sarah Haydon	10/10	14/14
Alan James	10/10	14/14
Colin McKenzie – ceased to be Director 20 May 2015	9/9	12/12

REMUNERATION OF DIRECTORS

Subject to the restrictions in the Constitution and the NZX Main Board Listing Rules, the Board may exercise the power conferred by section 161 of the Companies Act 1993 to authorise any payment of remuneration to the Directors in their capacity as such.

Shareholders have previously resolved that the total remuneration to be paid to the non-executive Directors be fixed at a sum not exceeding $350,000 per annum, such sum to be divided amongst them in such proportions and in such manner as they may determine. The Directors advise that the total remuneration paid to the non-executive Directors for the year ended 30 June 2015 was $299,677.

The remuneration package of the Managing Director (where one is appointed) is reviewed by the Board's Remuneration Committee before being approved by the Board. The Board's Remuneration Committee is composed entirely of non-executive Directors. The Managing Director does not participate in decisions affecting his/her remuneration package, nor is he/she entitled to any remuneration in his/her capacity as a Director.

The remuneration of the Directors can be found on page 92.

COMMITTEES OF THE BOARD

The Board has three standing committees, namely the Audit, Remuneration and Nomination Committees.

Audit Committee

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

The members of the Audit Committee as at 30 June 2015 were Graeme Hawkins (Chair), Grant Biel, Sarah Haydon and Alan James.

The attendance record of the members of the Audit Committee at the two Audit Committee meetings held during the year ended 30 June 2015 is as follows:

	Attendance record
Grant Biel	2/2
Graeme Edmond – ceased to be Director 13 March 2015	2/2
Graeme Hawkins	2/2
Sarah Haydon	2/2
Alan James	2/2

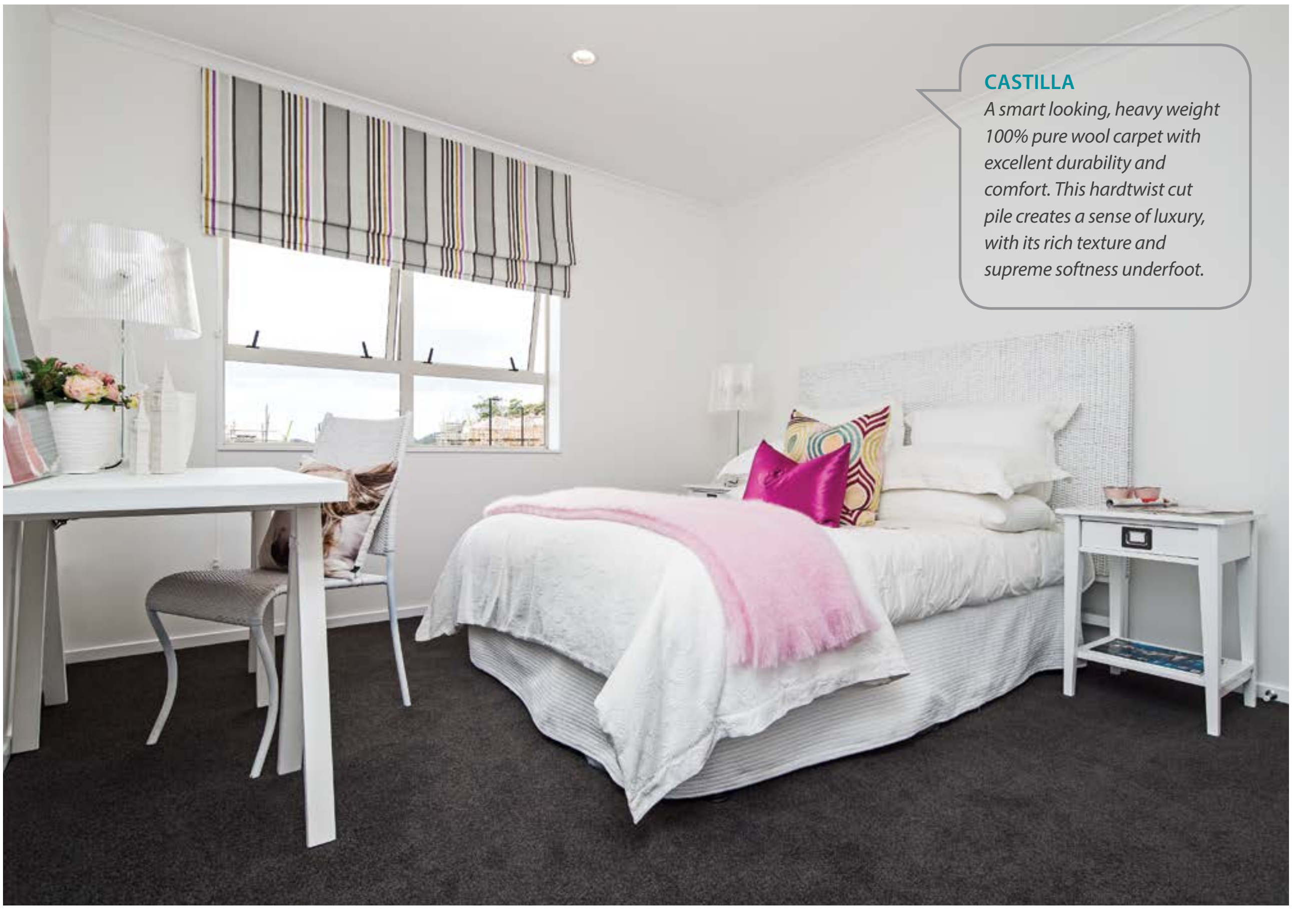
The members of the Audit Committee as at the date of this Annual Report were Graeme Hawkins (Chair), Grant Biel, Steve Bootten, Sarah Haydon, Dianne McAteer and John Rae.

Graeme Hawkins and Steve Bootten have backgrounds in finance and accounting and are both members 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.

Remuneration Committee

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 and senior management remuneration.

The Remuneration Committee meets as and when required, but at least once a year, to consider and recommend to the Board the remuneration package of the Managing Director or Chief Executive Officer and to approve the remuneration packages of other senior executives of the Company. 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 2015 were Alan James (Chair), Grant Biel, Graeme Hawkins and Sarah Haydon.

All the members of the Remuneration Committee were present at the one Remuneration Committee meeting held during the year ended 30 June 2015.

The members of the Remuneration Committee as at the date of this Annual Report were Sarah Haydon (Chair), Grant Biel, Steve Bootten, Graeme Hawkins, Dianne McAteer and John Rae.

Nomination Committee

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, but at least once a year.

The members of the Nomination Committee as at 30 June 2015 were Alan James (Chair), Grant Biel, Graeme Hawkins and Sarah Haydon.

The members of the Nomination Committee met on a number of occasions during the year ended 30 June 2015 as part of the actions taken by the Directors to address the matter of Board composition and re-fresh the Board.

The members of the Nomination Committee as at the date of this Annual Report were Sarah Haydon (Chair), Grant Biel, Steve Bootten, Graeme Hawkins, Dianne McAteer and John Rae.

CORPORATE GOVERNANCE BEST PRACTICE

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

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

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

SHAREHOLDER INFORMATION

ANNUAL MEETING OF SHAREHOLDERS

Time and date	10 a.m., Tuesday, 24 November 2015
Venue	Ellerslie Event Centre, 80 – 100 Ascot Avenue, Greenlane, Auckland

CORPORATE CALENDAR

24 November 2015	2015 Annual Meeting of shareholders
31 December 2015	End of 2016 half year
Late February 2016	Announcement of 2016 half year result
Mid-March 2016	Release of 2016 half year report
30 June 2016	End of 2016 financial year
Late August 2016	Announcement of 2016 annual result
September 2016[1]	Period for nomination of directors to the Board
End of September 2016[1]	Release of 2016 Annual Report

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

SHAREHOLDER ENQUIRIES

All shareholder enquiries should, in the first instance, be directed to the Company's share registrar, Computershare Investor Services Limited, details of which can be found in the Corporate Directory (refer to page 98 of the Annual Report).

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

FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2015

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

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 22 to 82, the Group financial statements for the year ended 30 June 2015.

These financial statements were authorised for issue by the Directors on 28 August 2015 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	**G S Hawkins**
Chair of the Board of Directors	Director

INDEPENDENT AUDITOR'S REPORT

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 22 to 82. The financial statements comprise the consolidated statement of financial position as at 30 June 2015, 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.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand, the 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 taxation services. 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 22 to 82 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 2015 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

28 August 2015
Auckland

INCOME STATEMENT

For the year ended 30 June 2015

	Note	2015 $000	2014 $000
Revenue	3	**215,728**	200,642
Cost of sales		**(168,205)**	(147,412)
Gross profit		**47,523**	53,230
Other income and gains/(losses)	4	**(2)**	(56)
Distribution expenses		**(34,316)**	(33,772)
Administration expenses	5	**(10,550)**	(10,642)
Impairment of carpet tile business assets	10, 16	**(12,896)**	–
Impairment of fixed assets	10	**(6,033)**	–
Impairment of intangible assets	11	**(5,432)**	–
Restructuring costs		**(988)**	–
Results from operating activities		**(22,694)**	8,760
Finance income	7	**–**	–
Finance expenses	7	**(3,948)**	(3,484)
Net finance costs		**(3,948)**	(3,484)
Share of profit of equity-accounted investee (net of income tax)	12	**1,514**	2,044
Profit/(Loss) before income tax		**(25,128)**	7,320
Income tax expense	8	**(587)**	(1,530)
Profit/(Loss) after tax for the period		**$(25,715)**	$5,790
Profit/(Loss) after tax attributable to:			
Shareholders of Cavalier Corporation Limited		**(25,715)**	5,790
Non-controlling interests		**–**	–
Profit/(Loss) after tax for the period		**$(25,715)**	$5,790
Basic and diluted earnings per share (cents)	17	**(37.4)**	8.5

This statement is to be read in conjunction with the notes on pages 28 to 82.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2015

	Note	2015 $000	2014 $000
Profit/(Loss) after tax for the period		**(25,715)**	5,790
Other comprehensive income that may be reclassified subsequently to profit or loss			
Effective portion of changes in fair value of cash flow hedges		**(1,360)**	1,116
Net change in fair value of cash flow hedges transferred to profit or loss		**(1,257)**	(1,189)
Share of fair value of cash flow hedges (net of tax) of equity-accounted investee	12	**(227)**	–
Foreign currency translation differences for foreign operations		**1,079**	(2,733)
Income tax on other comprehensive income	8, 13	**731**	21
		(1,034)	(2,785)
Other comprehensive income not reclassified subsequently to profit or loss			
Changes in amounts payable to non-controlling interests	20	**(26)**	132
Other comprehensive income for the period, net of income tax		**(1,060)**	(2,653)
Total comprehensive income for the period		**$(26,775)**	$3,137
Total comprehensive income attributable to:			
Shareholders of Cavalier Corporation Limited		**(26,775)**	3,137
Non-controlling interests		**–**	–
Total comprehensive income for the period		**$(26,775)**	$3,137

This statement is to be read in conjunction with the notes on pages 28 to 82.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2015

	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		**–**	**(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	20	**–**	**–**	**–**	**–**	**(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	18	**–**	**–**	**–**	**–**	**–**	**–**
Issue of ordinary shares	18	**–**	**–**	**–**	**–**	**–**	**–**
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 28 to 82.

STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 30 June 2014

	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 2013		$21,157	$994	$369	$1,448	$69,950	$93,918
Total comprehensive income for the period							
Profit/(Loss) after tax		–	–	–	–	5,790	5,790
Other comprehensive income that may be reclassified subsequently to profit or loss							
Changes in fair value of cash flow hedges (net of tax)		–	(52)	–	–	–	(52)
Foreign currency translation differences for foreign operations		–	–	(2,733)	–	–	(2,733)
		–	(52)	(2,733)	–	–	(2,785)
Other comprehensive income not reclassified subsequently to profit or loss							
Changes in amounts payable to non-controlling interests	20	–	–	–	–	132	132
Total other comprehensive income		–	(52)	(2,733)	–	132	(2,653)
Total comprehensive income for the period		–	(52)	(2,733)	–	5,922	3,137
Transactions with owners, recorded directly in equity							
Dividends paid to equity holders of the Company	18	–	–	–	–	(4,785)	(4,785)
Issue of ordinary shares	18	689	–	–	–	–	689
Total equity at 30 June 2014		$21,846	$942	$(2,364)	$1,448	$71,087	$92,959

This statement is to be read in conjunction with the notes on pages 28 to 82.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

	Note	2015 $000	2014 $000
ASSETS			
Property, plant and equipment	10	**47,910**	63,900
Intangible assets	11	**2,362**	7,794
Investment in equity-accounted investee	12	**24,937**	25,900
Deferred tax asset	13	**1,388**	3,107
Total non-current assets		**76,597**	100,701
Cash and cash equivalents	14	**2,834**	2,375
Trade receivables, other receivables and prepayments	15	**30,218**	25,910
Inventories	16	**49,847**	66,847
Derivative financial instruments	26	**1,363**	2,227
Tax receivable		**1,238**	–
Assets held for disposal	9	**7,029**	–
Total current assets		**92,529**	97,359
Total assets		**$169,126**	$198,060
EQUITY			
Share capital	18	**21,846**	21,846
Cash flow hedging reserve	18	**(1,171)**	942
Foreign currency translation reserve	18	**(1,285)**	(2,364)
Share rights reserve	18	**1,448**	1,448
Retained earnings		**45,346**	71,087
Total equity		**66,184**	92,959
LIABILITIES			
Loans and borrowings	21	**45,000**	61,220
Employee benefits	22	**1,626**	2,244
Deferred income	23	**157**	218
Provisions	24	**3,155**	3,901
Total non-current liabilities		**49,938**	67,583
Loans and borrowings	21	**11,767**	–
Trade creditors and accruals	25	**24,326**	27,258
Provisions	24	**1,445**	1,772
Employee entitlements		**4,533**	6,092
Amounts payable to non-controlling interests	20	**91**	65
Deferred income	23	**67**	67
Derivative financial instruments	26	**2,322**	639
Provision for tax		**–**	1,625
Liabilities held for disposal	9	**8,453**	–
Total current liabilities		**53,004**	37,518
Total liabilities		**102,942**	105,101
Total equity and liabilities		**$169,126**	$198,060

This statement is to be read in conjunction with the notes on pages 28 to 82.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2015

	Note	2015 $000	2014 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		**212,318**	202,002
Cash paid to suppliers and employees		**(201,108)**	(197,236)
		11,210	4,766
Dividends received		**2**	2
Other receipts		**23**	23
GST (paid)/refunded		**(1,096)**	(309)
Interest paid		**(3,892)**	(3,739)
Income tax (paid)/refunded		**(860)**	(128)
Net cash flow from operating activities	27	**5,387**	615
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		**55**	300
Acquisition of property, plant and equipment	10	**(2,564)**	(2,494)
Purchase consideration of non-controlling interests	20	**–**	(13)
Dividends received from equity-accounted investee	12	**2,250**	–
Net cash flow from investing activities		**(259)**	(2,207)
CASH FLOWS FROM FINANCING ACTIVITIES			
Movements in bank borrowings	21	**(4,754)**	2,735
Movements in other borrowings		**–**	(86)
Dividends paid to equity holders of the Company	18	**–**	(4,785)
Shares issued	18	**–**	689
Net cash flow from financing activities		**(4,754)**	(1,447)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**374**	(3,039)
Cash and cash equivalents at beginning of the period		**2,375**	5,698
Effect of exchange rate changes on cash		**85**	(284)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	14	**$2,834**	$2,375

This statement is to be read in conjunction with the notes on pages 28 to 82.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2015

1. GENERAL INFORMATION

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

The Company is registered under the Companies Act 1993 and is an FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013 ("FMCA 2013"). In accordance with the FMCA 2013, separate financial statements for the Company are not required to be prepared and presented if Group financial statements are prepared for the Company and its subsidiaries.

The Group financial statements have been prepared in accordance with the requirements of Part 7 of the FMCA 2013.

The Company is an issuer for the purposes of the Financial Reporting Act 2013 and is, accordingly, a For-Profit Tier 1 reporting entity that is required to comply with the provisions of both the Companies Act 1993 and the Financial Reporting Act 2013 and with New Zealand Generally Accepted Accounting Practice.

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

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

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

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

All Group subsidiaries are wholly-owned except for Ontera Modular Carpets Pty Limited which is 97% owned (2014: 97%).

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation of financial statements

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

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

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

Going concern

In preparing the financial statements, the Directors and management have assessed the Group's ability to continue as a going concern, particularly in light of the more recent poor financial performance of the Group.

In making this assessment, both Directors and management conducted a comprehensive review of the financial position of the Group, the carrying value of its assets (including consideration of market data (for example, market capitalisation)) and the level of debt and facilities the Group had at 30 June 2015 and its forecast debt requirements. Consideration was also given to the various initiatives that had been put in place to re-focus the Group on core business and debt reduction - as incorporated into the Group's recently-completed updated strategy and business plan - and the subsequent steps that had been taken to address its cost base.

Having taken into account:

(1) the financial position of the Group (after recognising the write-downs of impaired assets and intangibles at balance date);

(2) the projected financial performance of the Group, including compliance with covenants (see note 21 (Loans and borrowings));

(3) the progress that was made in the lead up to balance date with the Group's inventory and debt reduction initiatives and the progress that is continuing to be made with these initiatives since balance date;

(4) the progress that has been made with the sale of non-core assets (including the sale of its Australian-based tile manufacturing business and the sale of a prime – but non-core – property in Sydney) that would see significant reduction to the level of debt carried by the Group (see note 21 (Loans and borrowings)); and

(5) the progress being made by management in meeting the various targets that had been built into the updated strategy and business plan to address debt, cost base and financial performance;

it is the considered view of the Board of Directors that the Company is a going concern and is able to meet its contractual obligations as further discussed at note 21 (Loans and borrowings) and note 26 (Financial instruments and risks).

New standards and amendments to existing standards

The following amendment to an existing standard came into effect during the year and was adopted in the preparation and presentation of the financial statements:

NZ IAS 32 *Financial instruments: Presentation (amendment)* on offsetting financial assets and liabilities clarifies that the right of set-off must not be contingent on a future event but must be legally enforceable for all counterparties in the normal course of business as well as in the event of default, insolvency or bankruptcy. This amendment also considers the mechanisms for settlement.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Entities reporting

The financial statements include the consolidated financial statements of the Group (comprising Cavalier and its subsidiaries) and the Group's interest in equity-accounted investees as at, and for the year ended, 30 June 2015.

Historical cost convention

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

Measurement of fair values

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

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

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

Significant valuation assumptions are reported to the Audit Committee.

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

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

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

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

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

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

Further information about the assumptions made in measuring fair values is included in the relevant notes to the financial statements, including in particular note 26 – financial instruments and risks.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Significant accounting estimates

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

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

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

- Note 8 – measurement and recoverability of tax losses
- Note 11 – measurement of the recoverable amounts of cash-generating units
- Note 11 – impairment loss in respect of indefinite life intangibles
- Note 20 – measurement of the amounts due to non-controlling interests with put options
- Note 22 – measurement of employee benefits
- Note 24 – measurement of provisions
- Note 28 – segment reporting

(b) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

Equity-accounted investees

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

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

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

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

Transactions eliminated on consolidation

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Business combinations

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

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

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

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

(d) Foreign currency

Foreign currency transactions

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

Foreign operations

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

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

Hedge of net investment in foreign operations

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Derivative financial instruments

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

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

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

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

(f) Non-derivative financial instruments

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

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

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

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

Accounting for finance income and expense is covered separately.

(g) Share capital

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Property, plant and equipment

Recognition and measurement

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

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

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

Under construction

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

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

Depreciation

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Goodwill

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

Subsequent acquisitions

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

Subsequent measurement

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

(j) Trademarks

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

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

(k) Research and development

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

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

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

(l) Leased assets

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

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

(m) Inventories

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Impairment

Financial assets

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

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

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

Non-financial assets

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

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

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

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

(o) Employee benefits

Long-term benefits

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

Short-term benefits

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Provisions

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

(q) Revenue and other income

Sale of goods

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

Provision of services

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

Dividend income

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

(r) Government grants

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

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

(s) Lease payments

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

(t) Finance expenses

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Income tax expense

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

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

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

Deferred tax is not recognised for the following temporary differences:

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

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

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

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

(v) Earnings per share

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Non-controlling interests

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

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

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

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

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

(x) Segment reporting

An operating segment is a component of the Group:

- that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components,
- whose operating results are regularly reviewed by the Group's chief operating decision maker – in this case, the 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.

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Goods and Services Tax (GST)

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

(z) Measurement of fair values

Property, plant and equipment

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

Intangible assets

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

Inventories

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

Trade and other receivables

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

Loans and borrowings

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

Trade and other payables

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

Derivatives

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

(aa) Investments in subsidiaries

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

3. REVENUE

	2015 $000	2014 $000
Sales of goods	**213,951**	198,479
Provision of installation services	**1,777**	2,163
Total revenue	**$215,728**	$200,642

4. OTHER INCOME AND GAINS/LOSSES

Rentals received	**23**	23
Dividends received	**2**	2
Net loss on sale of property, plant and equipment	**(27)**	(81)
Total other income and gains/(losses)	**$(2)**	$(56)

5. ADMINISTRATION EXPENSES

The following items of expenditure are included in administration expenses:

Donations	**1**	2
Fees paid to KPMG for:		
Audit and review of financial statements	**185**	183
Tax services	**49**	61
Accounting services	**–**	9
Total fees paid to KPMG	**$234**	$253
Fees paid to other auditors of subsidiaries	**–**	$24

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.

6. PERSONNEL EXPENSES

Directors' fees	**300**	288
Wages, salaries, bonuses and holiday pay	**47,494**	49,621
Employee termination benefits	**672**	136
Employee benefits	**5,429**	5,383
Decrease in liability for retiring allowances and long service leave	**(32)**	(79)
Total personnel expenses	**$53,863**	$55,349

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. FINANCE INCOME AND EXPENSES

	Note	2015 $000	2014 $000
Finance income		**–**	–
Finance expenses		**(3,948)**	(3,484)
Net finance costs		**$(3,948)**	$(3,484)

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

8. INCOME TAX

INCOME TAX EXPENSE IN THE INCOME STATEMENT

	Note	2015 $000	2014 $000
Current tax expense/(benefit)			
Current period		**(2,547)**	2,276
Adjustment for prior periods		**599**	(286)
		(1,948)	1,990
Deferred tax expense/(benefit)			
Origination and reversal of temporary differences		**2,947**	(451)
Adjustment for prior periods		**(412)**	(9)
	13	**2,535**	(460)
Income tax expense		**$587**	$1,530

RECONCILIATION OF EFFECTIVE TAX RATE

	2015 $000	2014 $000
Profit/(Loss) for the period	**(25,715)**	5,790
Total income tax expense	**587**	1,530
Profit/(Loss) excluding income tax	**$(25,128)**	$7,320
Income tax using the Company's domestic tax rate of 28% (2014: 28%)	**(7,036)**	2,050
Deferred tax asset derecognised	**6,771**	–
Share of equity-accounted investee's tax paid profit	**(424)**	(572)
Non-deductible expenses	**1,584**	165
Effect of tax rate difference in foreign jurisdiction	**(332)**	9
Under/(Over) provided in prior periods	**187**	(295)
Other	**(163)**	173
Income tax expense	**$587**	$1,530

8. INCOME TAX (continued)

	Note	2015 $000	2014 $000
INCOME TAX RECOGNISED DIRECTLY IN EQUITY			
Derivative financial instruments		**(731)**	(21)
Income tax on income and expense recognised directly in equity	13	**$(731)**	$(21)
IMPUTATION CREDITS			
Imputation credits available to shareholders of the Company		**$6,212**	$4,587

9. ASSETS AND LIABILITIES HELD FOR DISPOSAL

	Note	2015 $000	2014 $000
Assets held for disposal			
Property, plant and equipment	10	**657**	–
Prepayments	15	**293**	–
Inventories	16	**6,079**	–
		$7,029	–
Liabilities held for disposal			
Employee benefits – term	22	**402**	–
Trade creditors and accruals	25	**5,970**	–
Provisions	24	**100**	–
Employee benefits – current		**1,981**	
		$8,453	–

All assets and liabilities held for disposal relate to the asset sale and purchase agreement entered into by Ontera Modular Carpets Pty Ltd, the carpet tile operation, for certain manufacturing assets and liabilities with a subsidiary of US-based Milliken and Company (see note 34).

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. 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 2013	31,193	92,459	19,356	1,245	144,253
Additions	11	435	563	1,485	2,494
Disposals	–	(1,863)	(915)	–	(2,778)
Transfers	–	1,111	190	(1,301)	–
Effect of changes in exchange rates	(725)	(1,886)	(418)	(68)	(3,097)
Balance at 30 June 2014	$30,479	$90,256	$18,776	$1,361	$140,872
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**
DEPRECIATION AND IMPAIRMENT LOSSES					
Balance at 1 July 2013	1,638	54,827	16,265	–	72,730
Depreciation for the year	236	4,741	872	–	5,849
Prior period impairment losses reversed	–	(620)	–	–	(620)
Disposals	–	(1,099)	(736)	–	(1,835)
Effect of changes in exchange rates	–	(865)	(317)	–	(1,182)
Balance at 30 June 2014	$1,874	$56,984	$16,084	–	$74,942
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**
GOVERNMENT GRANTS DEFERRED					
Balance at 1 July 2013	–	2,591	–	–	2,591
Release to income	–	(321)	–	–	(321)
Effect of changes in exchange rates	–	(240)	–	–	(240)
Balance as at 30 June 2014	–	$2,030	–	–	$2,030
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	**–**	**–**	**–**	**–**	**–**
CARRYING AMOUNTS					
At 30 June 2014	$28,605	$31,242	$2,692	$1,361	$63,900
At 30 June 2015	**$28,772**	**$16,583**	**$1,891**	**$664**	**$47,910**

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

10. PROPERTY, PLANT AND EQUIPMENT (continued)

Impairment loss

Impairment losses in respect of under-utilised plant and equipment in the broadloom carpet and carpet tile manufacturing operations of $12,841,000 were recognised during the year (2014: Nil). No prior period impairment losses were reversed during the year (2014: $620,000).

Security

At balance date, the Group's property, plant and equipment were subject to various registered charges in favour of the Group's bankers as security for the Group's banking facilities and arrangements (see note 21).

Property, plant and equipment under construction

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

Because of the short time taken to complete these projects, no interest was capitalised during the year (2014: Nil).

Government grants deferred

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

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

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

	2015 $000	2014 $000
Balance at 1 July	**2,030**	2,591
Released to income	**(320)**	(321)
Transfers to assets held for disposal	**(1,792)**	–
Effect of movements in exchange rates	**82**	(240)
Balance at 30 June	**–**	$2,030

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. INTANGIBLE ASSETS

	Goodwill $000	Trademarks $000	Total $000
COST			
Balance at 1 July 2013	6,067	2,192	8,259
Balance at 30 June 2014	$6,067	$2,192	$8,259
Balance at 1 July 2014	**6,067**	**2,192**	**8,259**
Balance at 30 June 2015	**$6,067**	**$2,192**	**$8,259**
AMORTISATION AND IMPAIRMENT LOSSES			
Balance at 1 July 2013	–	465	465
Reversal of prior period impairment losses	–	–	–
Impairment loss	–	–	–
Balance at 30 June 2014	–	$465	$465
Balance at 1 July 2014	**–**	**465**	**465**
Reversal of prior period impairment losses	**–**	**–**	**–**
Impairment loss	**3,705**	**1,727**	**5,432**
Balance at 30 June 2015	**$3,705**	**$2,192**	**$5,897**
CARRYING AMOUNTS			
At 30 June 2014	$6,067	$1,727	$7,794
At 30 June 2015	**$2,362**	**–**	**$2,362**

Goodwill recognised on acquisition of subsidiary

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

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

Trademarks recognised on acquisition of subsidiary

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

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

11. INTANGIBLE ASSETS (continued)

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

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

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

	Goodwill $000	Trademarks $000	Total $000
CARRYING AMOUNTS			
Balance at 30 June 2014			
Norman Ellison Carpets	2,043	1,727	3,770
Ontera Modular Carpets	1,662	–	1,662
Radford Yarn Technologies	2,362	–	2,362
Balance at 30 June 2014	$6,067	$1,727	$7,794
Balance at 30 June 2015			
Norman Ellison Carpets	**–**	**–**	**–**
Ontera Modular Carpets	**–**	**–**	**–**
Radford Yarn Technologies	**2,362**	**–**	**2,362**
Balance at 30 June 2015	**$2,362**	**–**	**$2,362**

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

Goodwill

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

- Cash flows were projected based on actual operating results for the latest financial year just finished and the budgeted operating results for the ensuing year. Cash flows for a further four year period were extrapolated based on management's assessment of the relevant future operating environments, both from a competitive and a regulatory perspective.
- Capital expenditures in excess of, or below, depreciation charge, after having regard to management's assessment of the capital expenditure requirements of these units.
- A 2% growth in earnings in years six and beyond.
- The New Zealand corporate tax rate of 28% for the 2014/15 financial year and thereafter.
- Post-tax discount rates of between 13% and 15% (2014: 13%). These discount rates were estimated based on a pre-tax risk-free rate of 5%, a post-tax market risk premium of 7.5%, a possible range of debt leveraging of around 50% and an Alpha factor of 2%.

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

As a result of the impairment testing carried out, the carrying value of goodwill relating to Norman Ellison Carpets was written off at balance date, consistent with the challenging operating conditions and the competitive nature of the segments in which it operated in New Zealand and Australia – largely as a result of the strong NZD and AUD which favoured imports.

The manufacturing assets of Ontera Modular Carpets are classified as held for disposal at year end. These are carried at fair value less cost of disposal necessitating the write down of goodwill to reflect the likely purchase price (see note 9).

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. INTANGIBLE ASSETS (continued)

Indefinite life intangibles

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

As a consequence of the challenging operating conditions and the competitive nature of the segments in which Norman Ellison Carpets operated in New Zealand and Australia and following testing for impairment, the carrying value of the Norman Ellison Carpets trademark was impaired at balance date.

12. EQUITY-ACCOUNTED INVESTEE

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

	2015 $000	2014 $000
Balance at 1 July	**25,900**	23,856
Share of tax-paid profit	**1,514**	2,044
Share of fair value of cash flow hedges (net of tax)	**(227)**	–
Dividends received	**(2,250)**	–
Balance at 30 June	**$24,937**	$25,900
Amount of goodwill in carrying value of equity-accounted investee:		
Balance at 1 July	**–**	–
Balance at 30 June	**–**	–

12. EQUITY-ACCOUNTED INVESTEE (continued)

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

	Percentage ownership interest	Current assets $000	Non-current assets $000	Total assets $000	Current liabilities $000	Non-current liabilities $000	Total liabilities $000	Net assets $000
2015 Cavalier Wool Holdings Limited – as at 30 June 2015	**50%**	**$8,420**	**$60,006**	**$68,426**	**$16,230**	**$3,905**	**$20,135**	**$48,291**
2014 Cavalier Wool Holdings Limited – as at 30 June 2014	50%	$7,602	$61,670	$69,272	$15,026	$3,794	$18,820	$50,452

	Percentage ownership interest	Revenues $000	Depreciation and amortisation $000	Interest expense $000	Other items $000	Merger costs	Profit before tax $000	Income tax expense $000	Profit after tax $000
2015 Cavalier Wool Holdings Limited – year ended 30 June 2015	**50%**	**$34,361**	**$(2,999)**	**$(908)**	**$(24,797)**	**($1,040)**	**$4,617**	**$(1,590)**	**$3,027**
2014 Cavalier Wool Holdings Limited – year ended 30 June 2014	50%	$33,319	$(2,902)	$(1,017)	$(23,652)	–	$5,748	$(1,660)	$4,088

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. EQUITY-ACCOUNTED INVESTEE (continued)

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

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

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

The Group received $2,250,000 of dividends from CWH during the year (2014: Nil). The Group notes that the dividend policy of CWH is to maximise dividend payments and on optimal terms to the shareholders provided that such payments are consistent with good business practice, the solvency and financial position of the company, the funding requirements of the company and comply with the law generally and, in particular, the responsibilities and duties of the directors.

The value of wool scouring services contracted directly with CWH during the year was $739,000 (2014: $832,000).

At balance date, the Group owed CWH $40,271 (inclusive of GST) in respect of invoices for wool scouring services provided in June 2015, but which were not due for payment at balance date (2014: $69,000). CWH owed the Group $23,302 (inclusive of GST) being rebates in respect of scouring services and wool storage provided in June 2015 (2014: $47,000) at balance date. All these amounts were paid in full after balance date.

13. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2015 $000	2014 $000	**2015 $000**	2014 $000	**2015 $000**	2014 $000
Property, plant and equipment	**–**	–	**(3,686)**	(3,723)	**(3,686)**	(3,723)
Derivatives	**367**	83	**(255)**	–	**112**	83
Inventories	**669**	1,038	**–**	–	**669**	1,038
Employee benefits	**1,493**	2,031	**–**	–	**1,493**	2,031
Provisions	**2,108**	2,002	**–**	–	**2,108**	2,002
Tax loss carry-forwards	**692**	1,676	**–**	–	**692**	1,676
Net tax assets/(liabilities)	**$5,329**	$6,830	**$(3,941)**	$(3,723)	**$1,388**	$3,107

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

13. DEFERRED TAX ASSETS AND LIABILITIES (continued)

Movement in temporary differences during the year:

	Balance 1 July 2013 $000	Recognised in profit or loss $000	Recognised in equity $000	Effect of exchange rate change $000	**Balance 30 June 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	(4,238)	596	–	(81)	**(3,723)**	**4**	**–**	**33**	**(3,686)**
Derivatives	(32)	96	21	(2)	**83**	**(703)**	**731**	**1**	**112**
Inventories	1,006	39	–	(7)	**1,038**	**(372)**	**–**	**3**	**669**
Loans and borrowings	110	(110)	–	–	**–**	**–**	**–**	**–**	**–**
Employee benefits	1,403	703	–	(75)	**2,031**	**(573)**	**–**	**35**	**1,493**
Provisions	3,058	(1,050)	–	(6)	**2,002**	**102**	**–**	**4**	**2,108**
Tax loss carry-forwards	1,490	186	–	–	**1,676**	**(993)**	**–**	**9**	**692**
Total	$2,797	$460	$21	$(171)	**$3,107**	**$(2,535)**	**$731**	**$85**	**$1,388**

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. CASH AND CASH EQUIVALENTS

	2015 $000	2014 $000
Cash and cash equivalents at bank	**2,834**	2,375
Cash and cash equivalents in the statement of cash flows	**$2,834**	$2,375

15. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	2015 $000	2014 $000
Trade receivables due from trade customers	**29,582**	24,905
Other receivables	**39**	158
Prepayments	**890**	847
	30,511	25,910
Transfer to assets held for disposal	**(293)**	–
	$30,218	$25,910

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

16. INVENTORIES

	2015 $000	2014 $000
Raw materials and consumables	**21,424**	28,135
Work in progress	**3,132**	2,531
Finished goods	**31,370**	36,181
	55,926	66,847
Transfer to assets held for disposal	**(6,079)**	–
	$49,847	$66,847
Inventories stated at net realisable value	**$2,175**	$2,218
Carrying amount of inventories subject to retention of title clauses	**$1,207**	$1,306

In 2015, the net realisable value provision in respect of inventories increased by $5,342,000 (2014: decreased by $210,000). This is made up of an increase of $5,338,000 which is included as part of the impairment of carpet tile business assets and an increase of $4,000 which is included in cost of sales.

17. EARNINGS PER SHARE

Basic and diluted earnings per share

	2015 Cents	2014 Cents
Basic earnings per share	**(37.4)**	8.5
Diluted earnings per share	**(37.4)**	8.5

17. EARNINGS PER SHARE (continued)

Basic earnings per share

The calculation of basic earnings per share at 30 June 2015 is based on the loss attributable to ordinary shareholders of $25,715,000 (2014: profit of $5,790,000) and a weighted average number of ordinary shares outstanding of 68,679,098 (2014: 68,462,919), calculated as follows:

Profit attributable to ordinary shareholders (basic)

	2015 $000	2014 $000
Profit/(Loss) after tax for the year	**(25,715)**	5,790
Profit/(Loss) attributable to non-controlling interests	**–**	–
Profit/(Loss) attributable to ordinary shareholders	**$(25,715)**	$5,790

Weighted average number of ordinary shares (basic)

	2015 000	2014 000
Issued ordinary shares at 1 July	**68,679.1**	68,263.9
Effect of shares issued during the year	**–**	199.0
Weighted average number of ordinary shares at 30 June	**68,679.1**	68,462.9

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2015 is based on the loss attributable to ordinary shareholders of $25,715,000 (2014: profit of $5,790,000) and a weighted average number of ordinary shares outstanding, after adjustment for the effects of all dilutive potential ordinary shares, of 68,679,098 (2014: 68,462,919), calculated as follows:

Profit attributable to ordinary shareholders (diluted)

	2015 $000	2014 $000
Profit/(Loss) after tax for the year	**(25,715)**	5,790
Profit/(Loss) attributable to non-controlling interests	**–**	–
Profit/(Loss) attributable to ordinary shareholders	**$(25,715)**	$5,790

Weighted average number of ordinary shares (diluted)

	2015 000	2014 000
Issued ordinary shares at 1 July	**68,679.1**	68,263.9
Effect of shares issued during the year	**–**	199.0
Weighted average number of ordinary shares (diluted) at 30 June	**68,679.1**	68,462.9

Pursuant to the Cavalier Corporation Limited 2000 Executive Share Rights Plan ("the Plan"), certain management personnel of the Group can be issued shares in the Company (share rights) depending on the total shareholder returns (being dividends paid and increase in share price) achieved by the Group between issue date and expiry date of the share rights.

Based on the market price of the Company's shares at 30 June 2015 of $0.36 cents per share and the $3.98 market price the Company's shares needs to be by 13 October 2015 – when the remaining 795,000 share rights expire under the terms of the Plan – these share rights are not expected to have any value and will lapse at expiry date.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. CAPITAL AND RESERVES

Share capital

	2015 000	2014 000
Ordinary shares		
Number on issue at 1 July	**68,679.1**	68,263.9
Shares issued during the year	**–**	415.2
Number on issue at 30 June	**68,679.1**	68,679.1

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.

In 2000, the Company established the Cavalier Corporation Limited 2000 Executive Share Rights Plan ("the Plan") pursuant to which certain management personnel of the Group can be issued shares in the Company (share rights) depending on the total shareholder returns (being dividends paid and increase in share price) achieved by the Group between issue date and expiry date of the share rights.

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

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

No shares are expected to be issued in respect of the remaining share rights, with the 795,000 share rights outstanding at balance date expected to lapse on their 13 October 2015 expiry date as explained in notes 17 and 19.

Dividends

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

	2015 Cents per share	2014 Cents per share
Previous year's fully imputed final dividend paid in October	**–**	4.0
Current year's fully imputed interim dividend paid in March	**–**	3.0
Total paid for the year	**–**	7.0

	2015 $000	2014 $000
Previous year's fully imputed final dividend paid in October	**–**	2,731
Current year's fully imputed interim dividend paid in March	**–**	2,054
Total paid for the year	**–**	$4,785

The Directors have decided that no final dividend will be payable in respect of the current year ended 30 June 2015 (2014: Nil).

18. CAPITAL AND RESERVES (continued)

Cash flow hedging reserve

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

Foreign currency translation reserve

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

Share rights reserve

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

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

The market value of shares issued to the share rights holders upon the exercise of the share rights are accounted for within shareholders' equity.

19. EXECUTIVE SHARE RIGHTS PLAN

In 2000, the Company established the Cavalier Corporation Limited 2000 Executive Share Rights Plan ("the Plan") pursuant to which certain management personnel of the Group can be issued shares in the Company (share rights) depending on the total shareholder returns (being dividends paid and increase in share price) achieved by the Group between issue date and expiry date of the share rights.

The following is a summary of the share rights currently on issue:

	2015 000	2014 000
Share rights on issue at 1 July	**1,680**	2,520
Share rights issued during the year	**–**	–
Share rights lapsed during the year	**(885)**	(840)
Share rights exercised during the year	**–**	–
Share rights on issue at 30 June	**795**	1,680

Based on the market price of the Company's shares at 30 June 2015 of $0.36 cents per share and the $3.98 market price the Company's shares needs to be by 13 October 2015 – when the remaining 795,000 share rights expire under the terms of the Plan – these share rights are not expected to have any value and will lapse at expiry date.

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. NON-CONTROLLING INTERESTS

The Group had a 97% interest in Ontera Modular Carpets Pty Limited (Ontera) at balance date (2014: 97%).

Pursuant to the Ontera shareholders' agreement, the Group granted, in favour of non-controlling interests, put options that give them the right to sell their respective shareholdings to the Group.

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

The prices at which these shareholdings can be sold or bought were arrived at on an arms-length basis and are calculated by capitalising the latest earnings of Ontera at the pre-agreed earnings multiple and then adjusting this downwards for net interest-bearing debt.

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

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

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

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

Impact of the accounting treatment

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

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

Future variability in financial liabilities created

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

Future payments of dividends to non-controlling interests

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

20. NON-CONTROLLING INTERESTS (continued)

Presentation of financial liabilities created

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

	2015 $000	2014 $000
Total amount payable to non-controlling interests at 1 July	**65**	210
Amounts paid to non-controlling interests on acquisition of their shares	**–**	(13)
Adjustment to amount payable to non-controlling interests	**26**	(132)
Total amount payable to non-controlling interests at 30 June	**$91**	$65
Non-current	**–**	–
Current	**91**	65
Total amount payable to non-controlling interests at 30 June	**$91**	$65

21. LOANS AND BORROWINGS

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

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 bank funding facilities of $65,250,000 at balance date, and the details of these facilities and their utilisation at that date (excluding overdraft facilities of $2,483,000, all of which were not utilised at balance date) can be analysed as follows:

	GROUP		
	Facilities (excluding overdraft) $000	**Facilities utilised at balance date $000**	**Facilities unutilised at balance date $000**
Facilities (excluding overdraft) due for review:			
after 1 year but within 2 years	**62,767**	**56,767**	**6,000**
Total	**$62,767**	**$56,767**	**$6,000**

	GROUP	
	Facilities (excluding overdraft) $000	**Facilities due for review after 1 year but within 2 years $000**
Secured bank facilities (denominated in NZD)	**56,000**	**56,000**
Secured bank facilities (denominated in AUD)	**6,767**	**6,767**
Total secured bank facilities	**$62,767**	**$62,767**

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. LOANS AND BORROWINGS (continued)

The Group has financial covenants with the Bank that require 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 2015, nor as at 30 June 2015.

While the Group's funding facilities next come up for review on 1 January 2017, the renegotiated facility agreement reflects a staged reduction in the Group's funding facilities (excluding overdraft facilities) to $45.0 million (from 1 January 2016) and $40.0 million (from 1 July 2016) which incorporates the ongoing reduction in bank debt under the Group's debt reduction programme.

Having taken into account:

(1) the projected financial performance of the Group, including compliance with banking covenants;

(2) the progress that was made in the lead up to balance date with the Group's inventory and debt reduction initiatives and the progress that is continuing to be made with these initiatives since balance date;

(3) the progress that has been made with the sale of non-core assets (including the sale of its Australian-based tile manufacturing business and the sale of a prime – but non-core – property in Sydney) that would see significant reduction to the level of debt carried by the Group; and

(4) the progress being made by management in meeting the various targets that had been built into the updated strategy and business plan to address debt, cost base and financial performance;

it is the considered view of the Board of Directors that no material uncertainty exists around the Group's ability to deliver on its debt reduction programme.

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

	GROUP					
	Nominal interest rate 2015 %	**Face value 2015 $000**	**Carrying amount 2015 $000**	Nominal interest rate 2014 %	Face value 2014 $000	Carrying amount 2014 $000
Secured bank loans (denominated in NZD)	**7.9**	**50,000**	**50,000**	5.9	57,235	57,235
Secured bank loans (denominated in AUD)	**6.2**	**6,767**	**6,767**	4.7	3,985	3,985
Total secured bank loans		**$56,767**	**$56,767**		$61,220	$61,220
Non-current		**45,000**	**45,000**		61,220	61,220
Current		**11,767**	**11,767**		–	–
Total secured bank loans		**$56,767**	**$56,767**		$61,220	$61,220

The Group had no other borrowings at balance date (2014: 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 10).

22. EMPLOYEE BENEFITS

	2015 $000	2014 $000
Liability for retiring allowances	**456**	735
Liability for long service leave	**1,572**	1,509
Total employee benefits	**2,028**	2,244
Transfer to liabilities held for disposal	**(402)**	–
	$1,626	$2,244

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

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

23. DEFERRED INCOME

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

	2015 $000	2014 $000
Balance as at 1 July	**285**	359
Released to income	**(61)**	(74)
Balance as at 30 June	**$224**	$285
Non-current	**157**	218
Current	**67**	67
Balance as at 30 June	**$224**	$285

NOTES TO THE FINANCIAL STATEMENTS (continued)

24. PROVISIONS

	Insurances $000	Restructuring $000	Warranties $000	Total $000
Balance at 1 July 2013	210	6,770	662	7,642
Amounts provided during the year	–	–	723	723
Amounts incurred during the year	–	(2,166)	(522)	(2,688)
Released to profit or loss during the year	–	–	–	–
Effect of movements in exchange rates	–	–	(4)	(4)
Balance at 30 June 2014	$210	$4,604	$859	$5,673
Non-current	210	3,691	–	3,901
Current	–	913	859	1,772
Balance at 30 June 2014	$210	$4,604	$859	$5,673
Balance at 1 July 2014	**210**	**4,604**	**859**	**5,673**
Amounts provided during the year	**–**	**–**	**354**	**354**
Amounts incurred during the year	**–**	**(746)**	**(586)**	**(1,332)**
Released to profit or loss during the year	**–**	**–**	**–**	**–**
Effect of movements in exchange rates	**–**	**–**	**5**	**5**
	210	**3,858**	**632**	**4,700**
Transfer to liabilities held for disposal	**–**	**–**	**(100)**	**(100)**
Balance at 30 June 2015	**$210**	**$3,858**	**$532**	**$4,600**
Non-current	**210**	**2,945**	**–**	**3,155**
Current	**–**	**913**	**532**	**1,445**
Balance at 30 June 2015	**$210**	**$3,858**	**$532**	**$4,600**

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

Insurances

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

Restructuring

The provision for restructuring relates largely to provision for onerous leases in respect of premises that were surplus to requirements following the consolidation of the Cavalier Bremworth and Norman Ellison Carpets broadloom carpet businesses.

$746,000 of this provision was incurred during the current year (2014: $2,166,000).

Warranties

The provision for warranties relates mainly to carpet sold during the years ended 30 June 2015 and 2014. The provision is based on estimates made from historical warranty data associated with similar products sold by the Group. The Group expects to incur all of the liability over the next year.

25. TRADE CREDITORS AND ACCRUALS

	2015 $000	2014 $000
Trade payables due to external parties	**26,938**	24,715
Accrued expenses	**3,358**	2,543
	30,296	27,258
Transfer to liabilities held for disposal	**(5,970)**	–
	$24,326	$27,258

26. FINANCIAL INSTRUMENTS AND 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)

26. FINANCIAL INSTRUMENTS AND RISKS (continued)

Management commentary (continued)

Liquidity risk

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

The Group's contractual cash flows and liquidity risk profile is set out in detail on page 64, with the Group's ability to meet its contractual obligations, particularly with respect to the repayment of bank loans, conditional upon the Group's positive net cash flow from operating activities and from sales of non-core assets and businesses.

Having taken into account:

(1) the projected financial performance of the Group;

(2) the progress that was made in the lead up to balance date with the Group's inventory and debt reduction initiatives and the progress that is continuing to be made with these initiatives since balance date;

(3) the progress that has been made with the sale of non-core assets (including the sale of its Australian-based tile manufacturing business and the sale of a prime – but non-core – property in Sydney) that would see significant reduction to the level of debt carried by the Group; and

(4) the progress being made by management in meeting the various targets that had been built into the updated strategy and business plan to address debt, cost base and financial performance;

it is the considered view of the Board of Directors that no material uncertainty exists around the Group's ability to meet its contractual obligations, including the Bank's financial covenants.

Foreign currency risk

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

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

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

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

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

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

26. FINANCIAL INSTRUMENTS AND RISKS (continued)

Management commentary (continued)

Interest rate risk

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

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

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

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:

	2015 $000	2014 $000
New Zealand	**12,656**	10,506
Australia	**14,933**	13,205
Other regions	**2,032**	1,352
Trade and other receivables	**$29,621**	$25,063

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

	Gross receivable 2015 $000	**Impairment 2015 $000**	Gross receivable 2014 $000	Impairment 2014 $000
Not past due	**23,746**	**–**	18,661	–
Past due 0 – 30 days	**4,944**	**–**	4,628	–
Past due 31 – 120 days	**764**	**(26)**	1,750	(59)
Past due > 120 days	**233**	**(40)**	104	(21)
Total	**$29,687**	**$(66)**	$25,143	$(80)

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

	2015 $000	2014 $000
Trade and other receivables – gross	**29,687**	25,143
Individual impairment	**(66)**	(80)
Trade and other receivables – net	**$29,621**	$25,063

NOTES TO THE FINANCIAL STATEMENTS (continued)

26. FINANCIAL INSTRUMENTS AND RISKS (continued)

Quantitative disclosures (continued)

Credit risk (continued)

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

	2015 $000	2014 $000
Balance at 1 July	**(80)**	(46)
Impaired trade receivables written off	**30**	27
Changes in impairment provision	**(16)**	(61)
Balance at 30 June	**$(66)**	$(80)

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

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 and from the sales of non-core assets and businesses, currently unutilised bank facilities (see note 21) and cash and cash equivalents at bank. See page 62 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
2015							
Secured bank loans	**56,767**	**60,076**	**1,385**	**19,958**	**38,733**	**–**	**–**
Trade creditors and accruals	**24,326**	**24,326**	**24,326**	**–**	**–**	**–**	**–**
Employee entitlements	**4,533**	**4,533**	**4,533**	**–**	**–**	**–**	**–**
Other payables	**91**	**91**	**91**	**–**	**–**	**–**	**–**
Total non-derivative liabilities	**$85,717**	**$89,026**	**$30,335**	**$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	**15**	**(49,972)**	**(40,397)**	**(9,575)**	**–**	**–**	**–**
	$15	**$8**	**$192**	**$(184)**	**–**	**–**	**–**

26. FINANCIAL INSTRUMENTS AND RISKS (continued)

Quantitative disclosures (continued)

Liquidity risk (continued)

	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
2014							
Secured bank loans	61,220	65,552	1,407	1,407	55,359	7,379	–
Trade creditors and accruals	27,258	27,258	27,258	–	–	–	–
Employee entitlements	6,092	6,092	6,092	–	–	–	–
Other payables	65	65	65	–	–	–	–
Total non-derivative liabilities	$94,635	$98,967	$34,822	$1,407	$55,359	$7,379	–
Interest rate swaps	–	$1,262	$(70)	$(70)	$(9)	$963	$448
Forward exchange contracts							
Inflow	–	43,159	34,015	9,144	–	–	–
Outflow	–	(41,786)	(32,945)	(8,841)	–	–	–
	–	$1,373	$1,070	$303	–	–	–

NOTES TO THE FINANCIAL STATEMENTS (continued)

26. FINANCIAL INSTRUMENTS AND RISKS (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
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**
2014				
Trade receivables	13,418	894	176	–
Secured bank loans	(3,985)	–	–	–
Trade payables	(7,662)	(7,490)	(300)	(8)
Net statement of financial position exposure before hedging activity	1,771	(6,596)	(124)	(8)
Estimated forecast sales for which hedging is in place	18,597	104	118	–
Estimated forecast purchases for which hedging is in place	–	(12,122)	–	–
Net cash flow exposure before hedging activity	20,368	(18,614)	(6)	(8)
Forward exchange contracts				
Notional amounts	(20,368)	18,614	(285)	–
Net unhedged exposure	–	–	$(291)	$(8)

26. FINANCIAL INSTRUMENTS AND RISKS (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 $000
2015						
Financial assets and liabilities						
Cash and cash equivalents	**2,834**	**2,834**	**–**	**–**	**–**	**–**
Secured bank loans	**(56,767)**	**(56,767)**	**–**	**–**	**–**	**–**
Unsecured borrowings	**–**	**–**	**–**	**–**	**–**	**–**
Bank overdrafts	**–**	**–**	**–**	**–**	**–**	**–**
	(53,933)	**(53,933)**	**–**	**–**	**–**	**–**
Related derivatives						
Effect of interest rate swaps	**–**	**25,000**	**–**	**(7,500)**	**(12,500)**	**(5,000)**
Total	**$(53,933)**	**$(28,933)**	**–**	**$(7,500)**	**$(12,500)**	**$(5,000)**
2014						
Financial assets and liabilities						
Cash and cash equivalents	2,375	2,375	–	–	–	–
Secured bank loans	(61,220)	(61,220)	–	–	–	–
Unsecured borrowings	–	–	–	–	–	–
Bank overdrafts	–	–	–	–	–	–
	(58,845)	(58,845)	–	–	–	–
Related derivatives						
Effect of interest rate swaps	–	25,000	–	–	(17,500)	(7,500)
Total	$(58,845)	$(33,845)	–	–	$(17,500)	$(7,500)

NOTES TO THE FINANCIAL STATEMENTS (continued)

26. FINANCIAL INSTRUMENTS AND RISKS (continued)

Capital management

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

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

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

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

The allocation of capital between the Group's specific business segment operations and activities is, to a large extent, driven by the opportunities that exist within each of these segments and the optimisation of the return achieved on the capital allocated. The process of allocating capital to specific business segment operations and activities is determined by the 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:

	2015 $000	2014 $000
Total loans and borrowings, including current portion	**56,767**	61,220
Plus bank overdraft	**–**	–
Less cash and cash equivalents	**(2,834)**	(2,375)
Net debt	**53,933**	58,845
Total equity	**66,184**	92,959
Total capital employed	**$120,117**	$151,804
Gearing ratio	**81.5%**	63.3%
Leverage	**44.9%**	38.8%

26. FINANCIAL INSTRUMENTS AND RISKS (continued)

Sensitivity analysis

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

At 30 June 2015, it is estimated that a general increase of one percentage point in interest rates would increase the Group's loss before income tax by approximately $248,000 (2014: decrease profit by $362,000). 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 an immaterial impact on the Group's profit or loss before income tax for the years ended 30 June 2015 and 2014 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 2015, the Group had interest rate swaps with a notional contract amount of $25,000,000 (2014: $25,000,000). $5,000,000 of these will mature within six months of balance date (2014: Nil), with the balance maturing over the next five years. The Group also had future dated swaps with a notional value of $7,500,000 as at 30 June 2015, $5,000,000 of which relates to the extension of the $5,000,000 swap that will expire within six months of balance date.

The Group classifies interest rate swaps as cash flow hedges. These swaps have fixed swap rates ranging from 3.5% to 4.92% (2014: 3.87% to 4.92%).

The net fair value of swaps at 30 June 2015 was a loss of $944,000 (2014: gain of $49,000).

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 (2014: 12 months). The net fair value of forward exchange contracts used as hedges of forecast transactions at 30 June 2015 was a loss of $367,000 (2014: gain of $1,265,000).

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 2015 was a gain of $352,000 (2014: $275,000) recognised in fair value derivatives.

Hedge of net investment in foreign operation

One of the Group's Australian dollar denominated secured bank loans is designated as a hedge against the property held by a subsidiary. The carrying amount of the loan at 30 June 2015 was $3,045,000 (2014: $2,908,000). A loss of $137,000 (2014: gain of $300,000) was recognised in the foreign currency translation reserve within equity on the translation of the loan to New Zealand dollars.

26. FINANCIAL INSTRUMENTS AND RISKS (continued)

Classification and fair values

The following tables show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. They do not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	2015								
	Hedging instruments $000	Loans and receivables $000	Other amortised cost $000	Total carrying amount $000	Fair value $000	Level 1 $000	Level 2 $000	Level 3 $000	Fair value $000
Assets									
Derivatives	1,363	–	–	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				
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	–	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				

26. FINANCIAL INSTRUMENTS AND RISKS (continued)

Classification and fair values (continued)

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

26. FINANCIAL INSTRUMENTS AND RISKS (continued)

Determination of fair values

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

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

In the case of loans and borrowings which were negotiated in June 2012, and subsequently renegotiated in June 2015, the underlying interest rate margins approximate current margins, and fair value approximates the present value of future principal and interest cash flows.

Master netting or similar agreements

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

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

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

	2015		2014	
	Derivative assets $000	**Derivative liabilities $000**	Derivative assets $000	Derivative liabilities $000
Gross amounts in the statement of financial position	**1,363**	**(2,322)**	2,227	(639)
Amounts offset	**–**	**–**	–	–
Net amounts in the statement of financial position	**1,363**	**(2,322)**	2,227	(639)
Related amounts that are not offset based on ISDA	**(1,363)**	**1,363**	(639)	639
Net amounts	**–**	**$(959)**	$1,588	–

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

	2015 $000	2014 $000
Profit/(Loss) after tax for the period	**(25,715)**	5,790
Add/(Deduct) non-cash items:		
Depreciation	**5,862**	5,849
Impairment of carpet tile business assets	**12,896**	–
Impairment of fixed assets	**6,033**	–
Impairment of intangibles	**5,432**	–
Deferred government grants	**(320)**	(321)
Share of profit of equity-accounted investee	**(1,514)**	(2,044)
Deferred tax asset	**2,615**	(432)
Employee benefits	**(216)**	(200)
Deferred income	**(61)**	(73)
Provisions	**(875)**	(2,027)
Net loss on sale of property, plant and equipment	**27**	81
Net (gain)/loss on foreign currency balance	**(49)**	140
Changes in working capital items:		
Trade and other receivables	**(4,313)**	906
Inventories	**6,248**	(10,734)
Tax payable/receivable	**(2,889)**	1,834
Trade creditors and accruals	**2,296**	1,420
Derivative financial instruments	**(70)**	426
Net cash flow from operating activities	**$5,387**	$615

NOTES TO THE FINANCIAL STATEMENTS (continued)

28. SEGMENT REPORTING

Reportable segments

The Group's reportable segments are:

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

An operating segment is a component of the Group:

- that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components;
- whose operating results are regularly reviewed by the Group's chief operating decision maker – in this case, the 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.

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

Nature of the products

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

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

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

Nature of the production processes

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

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

28. SEGMENT REPORTING (continued)

Reportable segments (continued)

Type or class of customers for their products

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

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

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

Methods used to distribute their products

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

Similarities in economic characteristics

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

28. SEGMENT REPORTING (continued)

Inter-segment transactions

All inter-segmental sales are at market prices, 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.

Information about geographical areas

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

	2015 $000	2014 $000
Revenue		
New Zealand	**101,054**	95,096
Australia	**106,759**	99,014
Rest of the world	**7,915**	6,532
	$215,728	$200,642

	As at 30 June 2015 $000	As at 30 June 2014 $000
Non-current assets		
New Zealand	**66,938**	82,579
Australia	**9,659**	18,122
	$76,597	$100,701

Information about major customers

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

28. SEGMENT REPORTING (continued)

	CARPETS		WOOL ACQUISITION		OTHER		TOTAL	
	2015 $000	2014 $000	2015 $000	2014 $000	2015 $000	2014 $000	2015 $000	2014 $000
External revenue	174,773	163,558	37,364	33,943	3,591	3,141	215,728	200,642
Inter-segment revenue	–	–	7,437	8,381	4,887	5,399	12,324	13,780
Total revenue	$174,773	$163,558	$44,801	$42,324	$8,478	$8,540	228,052	214,422
Elimination of inter-segment revenue							(12,324)	(13,780)
Consolidated revenue							$215,728	$200,642
Segment result before depreciation and restructuring costs	7,724	13,897	1,594	1,523	850	1,221	10,168	16,641
Depreciation	(5,466)	(5,460)	(104)	(105)	(292)	(284)	(5,862)	(5,849)
Segment result before restructuring costs	2,258	8,437	1,490	1,418	558	937	4,306	10,792
Restructuring costs	(387)	–	–	–	–	–	(387)	–
Impairment of carpet tile business assets	(12,896)	–	–	–	–	–	(12,896)	–
Impairment of fixed assets	(6,033)	–	–	–	–	–	(6,033)	–
Impairment of intangible assets	(5,432)	–	–	–	–	–	(5,432)	–
Segment result after restructuring costs	(22,490)	8,437	1,490	1,418	558	937	(20,442)	10,792
Elimination of inter-segment profits							198	(327)
Unallocated corporate costs							(2,450)	(1,705)
Results from operating activities							(22,694)	8,760
Net finance costs							(3,948)	(3,484)
Share of profit of equity-accounted investee (net of income tax)							1,514	2,044
Profit/(Loss) before income tax							(25,128)	7,320
Income tax expense							(587)	(1,530)
Profit/(loss) after tax for the period							$(25,715)	$5,790
Reportable segment assets	132,685	160,740	3,663	3,684	7,841	7,736	144,189	172,160
Investment in equity-accounted investee							24,937	25,900
Total assets							$169,126	$198,060
Capital expenditure	2,090	2,076	119	248	355	170	$2,564	$2,494
Reportable segment liabilities	43,222	40,289	2,663	2,890	290	702	46,175	43,881
Unallocated liabilities							56,767	61,220
Total liabilities							$102,942	$105,101
Employee numbers								
Operations	618	643	27	26	35	36	680	705
Unallocated							5	5
Total employee numbers							685	710

NOTES TO THE FINANCIAL STATEMENTS (continued)

29. OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2015 $000	2014 $000
Less than one year	**6,985**	6,778
Between one and five years	**11,110**	16,111
More than five years	**9**	1,249

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

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

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

	Term from balance date	Rights of renewal
6 Hautu Drive, Auckland, New Zealand	2 years	Two rights of renewal of 6 years each
273 Neilson Street, Auckland, New Zealand	5 years	None
373 Neilson Street, Auckland, New Zealand	4 years	None
27 Connaught Drive, Christchurch, New Zealand	2 years	Two rights of renewal of 6 years each
171 Briens Road, Sydney, Australia	1 year	One right of renewal of 10 years
10 Gassman Drive, Yatala, Queensland, Australia	2 years	None

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

The Group had two leased properties that were surplus to requirements following the consolidation of the Cavalier Bremworth and Norman Ellison Carpets broadloom carpet businesses. Both of these leased properties have since been sub-leased. Provisions in respect of shortfall in sub-lease income were established at the time of the restructuring and can be found in note 24.

During the year ended 30 June 2015, $5,855,000 was recognised as an expense in the income statement in respect of operating leases (2014: $6,357,000).

Leases as lessor

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

During the year ended 30 June 2015, $23,000 was recognised as rentals received in the income statement in respect of the lease of these premises (2014: $23,000).

30. CAPITAL COMMITMENTS

As at balance date, the Group had no outstanding commitments for capital expenditure (2014: $768,000).

31. CONTINGENCIES

The Group had granted indemnities in favour of Bank of New Zealand and National Australia Bank Limited (together, "the Bank") at balance date in respect of Bank guarantees relating to operating leases and other commitments totalling $1,757,000 (2014: $1,424,000).

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 $56,767,000 (2014: $61,220,000).

32. RELATED PARTIES

Transactions with substantial security holders

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

Transactions with directors and senior managers

For the purposes of note 32, 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 and senior managers 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 2015 (2014: Nil).

Non-executive directors' remuneration and benefits

The fees paid to the non-executive directors for services in their capacity as non-executive directors totalled $299,677 during the year ended 30 June 2015 (2014: $287,677).

No other services were provided by the non-executive directors during the year (2014: Nil).

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

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

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

	With effect from 1 July 2011
G C W Biel	96,000
G S Hawkins	96,000
Total	$192,000

NOTES TO THE FINANCIAL STATEMENTS (continued)

32. RELATED PARTIES (continued)

Transactions with directors and senior managers (continued)

Non-executive directors' remuneration and benefits (continued)

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

The Group notes that the Directors are precluded by the NZX Main Board Listing Rules from voting at general meetings of shareholders on certain matters prescribed by the New Zealand Exchange. These matters include, in the case of the non-executive directors 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 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:

	2015 $000	2014 $000
Wages, salaries, bonuses and holiday pay	**2,157**	2,211
Consultancy fees	**–**	401
Employee benefits	**258**	258
Increase in liability for retiring allowances and long service leave	**602**	32
	$3,017	$2,902

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

Other transactions

The Group deals with many entities and organisations in the normal course of business. The Group is not aware of any of the Directors, the Chief Executive Officer or 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 or personal in nature.

32. RELATED PARTIES (continued)

Transactions with non-controlling interests

Options over shares in Ontera Modular Carpets Pty Limited (Ontera)

Pursuant to the shareholders' agreement that was reached with the non-controlling interests at the time of the Group's acquisition of Ontera, the Group granted – in favour of these non-controlling interests – put options that give them the right to sell their respective shareholdings to the Group.

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

The prices at which these shareholdings can be sold or bought were arrived at on an arms-length basis.

At balance date, non-controlling interests held 3% of the shares of Ontera, all of which are subject to the put and call options described earlier.

Purchase of shares in Ontera

The Group did not acquire any shares from non-controlling interests in Ontera during the year (2014: 5,000 shares/ 0.25% in Ontera).

Dividends paid to non-controlling interests in Ontera

No dividends were paid to the non-controlling interests in Ontera during the year (2014: Nil).

33. GROUP ENTITIES

Operating subsidiaries of the Group

	COUNTRY OF INCORPORATION	INTEREST (%)	
		2015	2014
Cavalier Bremworth Limited	New Zealand	**100**	100
Cavalier Bremworth (Australia) Limited	New Zealand	**100**	100
Cavalier Bremworth Pty Limited	Australia	**100**	100
Cavalier Spinners Limited	New Zealand	**100**	100
Elco Direct Limited	New Zealand	**100**	100
Norman Ellison Carpets Limited	New Zealand	**100**	100
Norman Ellison Carpets Pty Limited	Australia	**100**	100
Radford Yarn Technologies Limited	New Zealand	**100**	100
Ontera Modular Carpets Pty Limited	Australia	**97**	97
Ontera Modular Carpets Limited	New Zealand	**97**	97
Equity-accounted investee of the Group			
Cavalier Wool Holdings Limited	New Zealand	**50**	50

NOTES TO THE FINANCIAL STATEMENTS (continued)

34. EVENTS AFTER BALANCE DATE

The Group announced on 27 August 2015 that a conditional asset sale and purchase agreement had been entered into by Ontera Modular Carpets Pty Ltd (Ontera) with a subsidiary of US-based Milliken and Company (Milliken) for the sale of certain manufacturing assets and liabilities.

The Group expects the sale to release around $6.5 million – from trade receivables and inventories that do not form a part of the sale – towards its debt reduction programme.

Settlement, which is conditional upon selected key employees of Ontera accepting employment with Milliken and the transfer of key contracts and leases to Milliken, is expected to occur within one to two weeks.

All the assets and liabilities subject to the Ontera-Milliken sale have been disclosed in the statement of financial position as assets and liabilities held for disposal (see note 9).

35. 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 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 periods beginning on or after 1 January 2017)

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 Contract*s and related interpretations.

The Group will adopt NZ IFRS 15 for its financial year ending 30 June 2018 and has yet to assess its full impact.

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

TREND STATEMENT

	2015 $000	2014 $000	2013 $000	2012 $000	2011 $000	2010 $000
Financial Performance						
Operating revenue	**$215,728**	$200,642	$201,739	$217,198	$229,373	$220,274
EBITDA (normalised)	**8,517**	14,609	12,142	12,278	31,916	27,257
Depreciation	**(5,862)**	(5,849)	(6,328)	(6,738)	(6,315)	(5,581)
EBIT (normalised)	**2,655**	8,760	5,814	5,540	25,601	21,676
Net interest expense	**(3,948)**	(3,484)	(3,740)	(4,049)	(3,545)	(3,478)
Share of after tax profit of equity-accounted investees (normalised)	**2,034**	2,044	5,013	3,302	2,039	4,015
Profit before income tax (normalised)	**741**	7,320	7,087	4,793	24,095	22,213
Income tax (expense)/benefit	**454**	(1,530)	(463)	(510)	(6,829)	(5,586)
Profit after tax (normalised)	**1,195**	5,790	6,624	4,283	17,266	16,627
Non-controlling interests	**-**	-	-	-	-	-
Profit after tax attributable to shareholders of the company (normalised)	**1,195**	5,790	6,624	4,283	17,266	16,627
Abnormal costs (after tax)	**(26,910)**[1]	-	(3,594)[2]	(5,916)[3]	914[4]	(5,258)[5]
Profit/(Loss) after tax attributable to shareholders of the company (reported)	**(25,715)**	5,790	3,030	(1,633)	18,180	11,369
Ordinary dividends paid	**-**	(4,785)	-	(7,509)	(12,233)	(10,104)
Profit/(Loss) after dividends	**$(25,715)**	$1,005	$3,030	$(9,142)	$5,947	$1,265
Financial Position						
Shareholders' equity	**66,184**	92,959	93,918	90,855	99,294	91,451
Loans and borrowings	**45,000**	61,220	58,896	68,503	60,070	51,776
Term liabilities	**4,938**	6,363	6,961	5,591	4,927	6,526
Deferred tax liability	**-**	-	-	-	-	726
Loans and borrowings – current portion	**11,767**	-	320	172	7,617	852
Current liabilities	**41,237**	37,518	36,542	36,313	43,817	39,693
Shareholders' equity and total liabilities	**$169,126**	$198,060	$196,637	$201,434	$215,725	$191,024
Fixed assets	**47,910**	63,900	68,932	75,080	80,110	75,878
Investment in equity-accounted investees	**24,937**	25,900	23,856	22,593	22,291	20,095
Goodwill and other intangibles	**2,362**	7,794	7,794	7,502	7,502	5,292
Deferred tax asset	**1,388**	3,107	2,797	1,998	158	-
Non-current assets	**76,597**	100,701	103,379	107,173	110,061	101,265
Current assets	**92,529**	97,359	93,258	94,261	105,664	89,759
Total assets	**$169,126**	$198,060	$196,637	$201,434	$215,725	$191,024

TREND STATEMENT (continued)

[1]	$000s
Impairment of carpet tile business assets	**9,132**
Impairment of fixed assets	**4,344**
Impairment of intangible assets	**5,432**
Derecognition of deferred tax asset	**6,771**
Restructuring costs	**1,231**
Total	**$26,910**

[2] Employee termination benefits, employee support costs, costs to relocate plant and equipment and contract termination costs as a consequence of further business improvement plans during the year (including the consolidation of two carpet tufting plants) to continue to improve the level of efficiencies and to reposition the broadloom carpet business of $4,113,000 after tax, offset by releases of provisions taken up in the previous year of $519,000 after tax

[3] Employee termination benefits, employee support costs, costs to relocate plant and equipment and contract termination costs as a consequence of various business improvement plans initiated during the year (including the consolidation of three carpet yarn spinning plants to two and the consolidation of two carpet warehousing and distribution centres) in response to the deterioration in trading conditions for the broadloom carpet business

[4] 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"

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

TREND STATEMENT (continued)

	2015	2014	2013	2012	2011	2010
Financial Ratios and Summary						
Use of Funds and Return on Investment						
Return on average shareholders' equity (normalised)	**1.5%**	6.2%	7.2%	4.5%	18.1%	18.6%
NOPAT : Total funds employed (normalised)	**3.5%**	4.2%	5.4%	4.4%	10.8%	12.9%
Basic and diluted earnings per ordinary share (normalised)	**1.7c**	8.5c	9.7c	6.3c	25.4c	24.6c
Financial Structure						
Net tangible asset backing per ordinary share	**$0.93**	$1.24	$1.26	$1.22	$1.34	$1.27
Proprietorship ratio	**39.1%**	46.9%	47.8%	45.1%	46.0%	47.9%
Net interest-bearing debt : equity ratio	**45:55**	39:61	36:64	42:58	40:60	35:65
Net interest cover (normalised) (times)	**1.5**	2.5	3.0	2.4	7.2	7.5
Return to Shareholders						
Dividends paid per ordinary share (excluding supplementary)	**-**	7.0c	-	11.0c	18.0c	15.0c
Dividend imputation	**-**	100%	-	100%	100%	100%
Ordinary dividend cover (normalised) (times)	**-**	1.2	-	0.6	1.4	1.6
Supplementary dividends paid per ordinary share	**-**	1.24c	-	1.94c	3.18c	2.65c
Share Price						
June	**$0.36**	$1.33	$1.70	$1.52	$3.80	$2.45
52 week high	**$1.36**	$2.03	$2.12	$3.83	$4.00	$2.95
52 week low	**$0.31**	$1.33	$1.45	$1.41	$2.33	$1.80
Market Capitalisation ($000)						
June	**$24,724**	$91,343	$116,049	$103,761	$259,403	$166,197
Capital Expenditure and Depreciation ($000)						
Capital expenditure	**$2,564**	$2,494	$1,907	$2,457	$5,391	$6,002
Depreciation	**$5,862**	$5,849	$6,328	$6,738	$6,315	$5,581

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 interest-bearing liabilities

USE OF FUNDS AND RETURN ON INVESTMENT

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

FINANCIAL STRUCTURE

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

RETURN TO SHAREHOLDERS

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

DISCLOSURE OF NON-GAAP FINANCIAL INFORMATION

The Directors acknowledge that the Annual Report, including the Trend Statement from pages 83 to 86, contains financial information that is non-GAAP (Generally Accepted Accounting Practice) and therefore falls within the Financial Markets Authority's guidance note on "Disclosing non-GAAP financial information" issued in September 2012.

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

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

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

The disclosure of the non-GAAP financial information is also consistent with how the financial information for the Group is reported internally, and reviewed by the 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

	2015	2014
GAAP-compliant reported profit/(loss) after tax	**(25,715,000)**	5,790,000
Add back after tax impact of:		
Impairment of carpet tile business assets	**9,132,000**	–
Impairment of fixed assets	**4,344,000**	–
Impairment of intangible assets	**5,432,000**	–
Derecognition of deferred tax asset	**6,771,000**	–
Restructuring costs	**711,000**	–
Scour merger costs	**520,000**	–
Total add-back	**26,910,000**	–
Non GAAP-compliant normalised profit after tax	**$1,195,000**	$5,790,000

Calculation of earnings per share, basic and diluted, 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 2015			
Profit/(Loss) attributable to shareholders	**$(25,715,000)**	**$26,910,000**	**$1,195,000**
Weighted average number of ordinary shares	**68,679,098**		**68,679,098**
Earnings per share (basic and diluted)	**(37.4) cents**		**1.7 cents**
Year ended 30 June 2014			
Profit/(Loss) attributable to shareholders	$5,790,000	–	$5,790,000
Weighted average number of ordinary shares	68,462,919		68,462,919
Earnings per share (basic and diluted)	8.5 cents		8.5 cents

OTHER DISCLOSURES

DISCLOSURES UNDER THE COMPANIES ACT 1993

Year ended 30 June 2015

DIRECTORS (s211(1)(i))

The Directors of the Company as at 30 June 2015 were:

Grant Biel

Graeme Hawkins

Sarah Haydon

Alan James

Graeme Edmond and Colin McKenzie ceased to be Directors on 13 March 2015 and 20 May 2015 respectively.

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

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

Use of company information (s145)

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

Remuneration (s161)

On 20 May 2015, Colin McKenzie resigned from his roles as Managing Director and Chief Executive Officer. The Board of Directors authorised, in conjunction with his resignation, a termination payment equivalent to one year's base salary of $470,000 to him in part consideration of the restraints agreed with him. This termination payment is in addition to the other payments and benefits due to him under the terms of his employment agreement during the six month notice period.

The Directors also authorised, on 22 June 2015, the payments of additional directors' fees of $10,000 to each of Graeme Hawkins and Sarah Haydon for the year ended 30 June 2015 in recognition of the significant additional work and responsibilities they assumed on behalf of the Board.

Indemnity and Insurance (s162)

The Directors authorised, on 27 March 2015, the Company's entry into deeds of indemnity, access and insurance with each of Grant Biel, Graeme Hawkins, Sarah Haydon, Alan James and Colin McKenzie.

The Board of Directors also authorised, on 26 June 2015, the Company's renewal of the directors' and officers' liability insurance policies for the period from 1 July 2015 to 30 June 2016.

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.

Share dealing (s148)

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

Directors' relevant interests in shares in the Company as at 30 June 2015 were:

Grant Biel	
Beneficial	–
Other	8,467,642
Graeme Hawkins	
Beneficial	10,250 [1]
Other	–
Sarah Haydon	
Beneficial	10,000
Other	–
Alan James	
Beneficial	373,045 [1]
Other	–

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

[2] Colin McKenzie held 75,000 share rights pursuant to the terms of the Cavalier Corporation 2000 Executive Share Rights Plan as at 30 June 2015.

Specific disclosures of interest (s140(1))

No specific disclosures of interest were received during the year.

General disclosures of interest (s140(2))

General disclosures of interest that were current as at 30 June 2015 were:

Grant Biel

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

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

Graeme Hawkins

Director of:
- Ports of Auckland Limited

Director and shareholder of:
- Hawkins Consulting Services Limited
- Ignition Development Limited
- Stableburn Farms Limited

Trustee of Hawkins Family Trust

DISCLOSURES UNDER THE COMPANIES ACT 1993 (continued)

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

General disclosures of interest (s140(2)) (continued)

Sarah Haydon	Director of: The Institute of Geological and Nuclear Sciences Limited The Co-operative Bank Limited Council Member of Unitec Institute of Technology Chair of New Zealand Riding for the Disabled Association Executive Committee Member of Waste Disposal Services Associate of: The Boardroom Practice Limited Dial-a-CFO Trustee of: R&E Seelye Trust Unitec Trust
Alan James	None

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

The total remuneration and value of other benefits earned (received, and due and receivable) by each of the Directors of the Company for the year ended 30 June 2015 were:

	2015	2014
Grant Biel	**$48,000**	$48,000
Graeme Edmond [1]	**$33,677**	$20,000
Graeme Hawkins	**$64,000**	$54,000
Sarah Haydon	**$58,000**	$48,000
Alan James	**$96,000**	$96,000
Colin McKenzie [2]	**$1,354,968**	$512,457
Keith Thorpe [3]	**–**	$56,667

1 Graeme Edmond was appointed to the Board of Directors on 1 February 2014 and ceased to be a Director on 13 March 2015.

2 Total remuneration and value of other benefits earned as an employee, including entitlements paid and payable on termination (for example, holiday pay accrued).

3 Keith Thorpe retired from the Board of Directors on 13 December 2013. The amount that was paid to him in 2014 includes a retiring allowance of $35,000.

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

The number of employees of the Company and its subsidiaries (excluding employees holding office as directors of the Company, but including other employees holding office as directors of subsidiaries) whose remuneration and value of other benefits for the year ended 30 June 2015 fall into the various brackets specified by the Companies Act 1993 is as follows:

	NUMBER OF EMPLOYEES	
Remuneration and value of other benefits ($)	**2015**	2014
100,000 – 109,999	**24**	33
110,000 – 119,999	**24**	25
120,000 – 129,999	**15**	15
130,000 – 139,999	**20**	12
140,000 – 149,999	**8**	8
150,000 – 159,999	**8**	5
160,000 – 169,999	**3**	4
170,000 – 179,999	**3**	1
180,000 – 189,999	**3**	4
190,000 – 199,999	**3**	2
200,000 – 209,999	**1**	1
210,000 – 219,999	**1**	1
220,000 – 229,999	**2**	3
230,000 – 239,999	**4**	1
240,000 – 249,999	**1**	–
250,000 – 259,999	**1**	2
260,000 – 269,999	**1**	–
270,000 – 279,999	**–**	–
280,000 – 289,999	**–**	–
290,000 – 299,999	**–**	1
300,000 – 309,999	**–**	–
310,000 – 319,999	**2**	–
320,000 – 329,999	**–**	1
330,000 – 339,999	**–**	1
340,000 – 349,999	**–**	–
350,000 – 359,999	**–**	–
360,000 – 369,999	**1**	1
370,000 – 379,999	**–**	–
380,000 – 389,999	**–**	1
390,000 – 399,999	**1**	–
Total number of employees	**126**	122

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

Refer to page 41 of the Annual Report (note 5 of the Notes to the Financial Statements).

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

Refer to page 41 of the Annual Report (note 5 of the Notes to the Financial Statements).

DISCLOSURES UNDER THE COMPANIES ACT 1993 (continued)

SUBSIDIARY COMPANY DIRECTORS (s211(2))

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

Subsidiaries	Directors
Cavalier Bremworth Limited Knightsbridge Carpets Limited Cavalier Spinners Limited E Lichtenstein and Company Limited Elco Direct Limited Elcopac Limited Elcotex Limited Elcowool Limited e-Wool Limited Heron Distributors Limited Cavalier Bremworth (North America) Limited EnCasa Carpets Limited Microbial Technologies Limited Northern Prospecting Limited Radford Yarn Technologies Limited	Paul Alston Colin McKenzie
Cavalier Holdings (Australia) Pty. Limited Cavalier Bremworth Pty. Limited Kimberley Carpets Pty. Limited Norman Ellison Carpets Pty. Limited Cavalier Bremworth (Australia) Limited	Paul Alston Cathy Howitt Colin McKenzie
Ontera Modular Carpets Pty. Limited Ontera Modular Carpets Limited	Paul Alston Dean Harriott Colin McKenzie
Norman Ellison Carpets Limited Carpet Distributors Limited Horizon Yarns Limited NEC Limited	Paul Alston Colin McKenzie Warwick Norman (ceased during the year)

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

The details of entries in the interests register and the remuneration and value of other benefits of subsidiary company directors who are also Directors of the Company are set out on pages 90 to 92.

There were no entries in the interests register in respect of any of the subsidiary company directors who are not also Directors of the Company. The remuneration and value of other benefits of these directors is disclosed under employees' remuneration on page 93.

DISCLOSURES UNDER THE NEW ZEALAND EXCHANGE MAIN BOARD LISTING RULES

As at 31 August 2015

ANALYSIS OF SHAREHOLDINGS (LISTING RULE 10.4.5)

	Number of Shareholders	%	Shares Held	%
Size of shareholdings				
Up to 199	103	2.43	8,570	0.01
200 – 499	154	3.63	52,825	0.08
500 – 999	269	6.35	191,484	0.28
1,000 – 1,999	710	16.75	987,248	1.44
2,000 – 4,999	1,234	29.12	3,814,157	5.55
5,000 – 9,999	804	18.97	5,390,332	7.85
10,000 – 49,999	831	19.61	15,432,018	22.47
50,000 – 99,999	76	1.79	4,730,378	6.89
Over 99,999	57	1.34	38,072,086	55.43
	4,238	100.00	68,679,098	100.00
Location of shareholders				
New Zealand	4,104	96.84	67,060,132	97.64
Overseas – Australia	74	1.75	935,948	1.36
– Others	60	1.41	683,018	1.00
	4,238	100.00	68,679,098	100.00

	Shares Held	%
Top 20 shareholders		
Chippendale Holdings Limited	9,174,312	13.36
Rural Aviation (1963) Limited	8,467,642	12.33
New Zealand Central Securities Depository Limited	3,407,142	4.96
FNZ Custodians Limited	2,525,286	3.68
Superlife Trustee Nominees Limited (SL NZ A/c)	2,352,547	3.43
Warwick Bruce Norman, Averil Rosemary Norman and Norman Trust Limited	1,100,000	1.60
Masfen Securities Limited	787,500	1.15
Graham James Munro and Zita Lillian Munro	530,000	0.77
Chester Perry Nominees Limited	500,000	0.73
Custodial Services Limited (A/c 3)	450,692	0.66
Geoffrey Thomas Charles Harnden	450,000	0.66
Estate Anthony Charles Timpson Deceased	420,732	0.61
Forsyth Barr Custodians Limited (1-33)	373,097	0.54
Alan Michael James and Ann White James (JWJ Super Fund)	373,045	0.54
John Douglas Peat, Michael Graham Peat, Jessie Ellen Snedden and Lawrence William Cornish	360,000	0.52
J & D Sands Limited	250,000	0.36
Nicolaas Johannes Kaptein	250,000	0.36
Ian David McIlraith	250,000	0.36
Mary Dorcas Spackman	250,000	0.36
William John Robinson	246,696	0.36
	32,518,691	47.35

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

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 2015 were:

	Shares Held	%
Accident Compensation Corporation	3,025,904	4.41
JP Morgan Chase Bank NA NZ Branch – Segregated Clients A/c	250,008	0.36
National Nominees New Zealand Limited	83,950	0.12
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
Private Nominees Limited	6,580	0.01
	3,407,142	4.96

DIRECTORS' AND ASSOCIATED PERSONS' SHAREHOLDINGS

	30 JUNE 2015	
	Beneficial	Non-Beneficial
Shares		
Grant Biel	–	8,528,762 [1]
Graeme Hawkins	10,250 [2]	–
Sarah Haydon	10,000	–
Alan James	373,045 [2]	–

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

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

[3] Colin McKenzie held 75,000 share rights pursuant to the terms of the Cavalier Corporation 2000 Executive Share Rights Plan as at 30 June 2015.

DIVERSITY POLICY (LISTING RULE 10.4.5)

The Company does not have a formal diversity policy.

However, the Company acknowledges the significant benefits diversity in the workplace brings to the Group – particularly in the form of the additional and broader perspectives in approach, leadership, 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 2015			30 JUNE 2014		
	Male	**Female**	**Total**	Male	Female	Total
Directors	**3/75%**	**1/25%**	**4/100%**	5/83%	1/17%	6/100%
Officers [1]	**3/100%**	**–**	**3/100%**	4/100%	–	4/100%
Direct reports of officers	**15/75%**	**5/25%**	**20/100%**	16/76%	5/24%	21/100%

[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.

TRANSACTION WITH RELATED PARTIES (LISTING RULE 9.2)

On 20 May 2015, Colin McKenzie resigned from his roles as Managing Director and Chief Executive Officer. At the same time, Paul Alston, Chief Financial Officer and director of a number of subsidiaries of the Company, was appointed Interim Chief Executive Officer.

The Board of Directors approved, in conjunction with Colin McKenzie's resignation and Paul Alston's appointment, the Company's entry into a termination agreement with Colin McKenzie and an employment agreement with Paul Alston.

As a consequence of the Company relying on an exception to NZX Listing Rule 9.2.2 which allows it to enter into those arrangements without shareholder approval, the Company discloses:

(a) in respect of the termination agreement with Colin McKenzie, that it provides for a termination payment (in addition to the other payments and benefits due to him under the terms of his employment agreement during the six month notice period) equivalent to one year's base salary of $470,000 in part consideration of the restraints agreed with him; and

(b) in respect of the employment agreement with Paul Alston, that it provides for an increase in his base salary to $450,000 per annum on his appointment.

DISCLOSURES UNDER THE FINANCIAL MARKETS CONDUCT ACT 2013

As at 30 June 2015

SUBSTANTIAL HOLDINGS (s293)

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
Grant Biel	8,467,642
Chippendale Holdings Limited	8,886,490
Rural Aviation (1963) Limited	8,467,642
Tony Timpson Family Trust	8,902,164
Accident Compensation Corporation[1]	4,642,261

The total number of ordinary shares, being the only class of listed voting securities in the Company, as at 30 June 2015 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.

[1] Sold on-market 1,000,000 shares on 10 July 2015 and a further 660,903 shares on 17 July 2015. Ceased to have a substantial holding effective 17 July 2015.

CORPORATE DIRECTORY

BOARD OF DIRECTORS:

Grant Biel B.E. (Mech.) *Non-executive, Non-independent*	Deputy Chair of the Board Member of Audit, Remuneration and Nomination Committees
Steve Bootten ACA, FCIS, MInstD *Non-executive, Independent*	Member of Audit, Remuneration and Nomination Committees
Graeme Hawkins B.Sc., B.Com., ACA, DistFInstD *Non-executive, Independent*	Chair of Audit Committee Member of Remuneration and Nomination Committees
Sarah Haydon B.Sc., ACA, CInstD *Non-executive, Independent*	Chair of the Board Chair of Remuneration and Nomination Committees Member of Audit Committee
Dianne McAteer B.Com., MBA *Non-executive, Independent*	Member of Audit, Remuneration and Nomination Committees
John Rae B.Com., LLB *Non-executive, Independent*	Member of Audit, Remuneration and Nomination Committees

CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER:

Paul Alston BBS, 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, Takapuna, North Shore City,
Private Bag 92119, Auckland 1142.
Telephone: 64-9-488 8700, Facsimile: 64-9-488 8787, Investor Enquiries: 64-9-488 8777.

AUDITORS:

KPMG

LEGAL ADVISORS:

Russell McVeagh

BANKERS:

Bank of New Zealand

National Australia Bank Limited

CORPORATE:

Chief Executive Officer and Chief Financial Officer	Paul Alston
Company Secretary	Victor Tan
Group Financial Controller	Linda Arbuckle
Group Information Services Manager	Trevor Jones

CARPET OPERATION:

Cavalier Carpets:

Chief Executive Officer	Brent Wollaston

YARN OPERATION:

Radford Yarn Technologies:

General Manager	Edward Radford

WOOL OPERATIONS:

Elco Direct:

General Manager	Ronald Cooper

Cavalier Wool Holdings:

Chief Executive Officer	Nigel Hales

WEBSITES:

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

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