UNAUDITED

ANNUAL FINANCIAL STATEMENTS - YEAR ENDED 30 JUNE 2020

CONTENTS

NON-GAAP FINANCIAL INFORMATION

Directors’ Responsibility Statement

DIRECTORS' RESPONSIBILITIES

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

ACCOUNTING POLICIES

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

ACCOUNTING RECORDS

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

SAFEGUARDING OF ASSETS AND INTERNAL CONTROLS

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

FINANCIAL STATEMENTS

The Directors present, on pages 3 to 45, the Group financial statements for the year ended 30 June 2020.

These financial statements were authorised for issue by the Directors on 28 September 2020 and, as required by section 461(1)(b) of the Financial Markets Conduct Act 2013, are dated and signed as at that date.

For and on behalf of Cavalier Corporation Limited

T H G Adams
Chairman of the Board of Directors

J M Rae
Chairman of the Audit Committee

Cavalier Corporation Limited and subsidiary companies

Consolidated Income Statement

For the year ended 30 June 2020

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

This statement is to be read in conjunction with the notes on pages 10 to 45.

Cavalier Corporation Limited and subsidiary companies

Consolidated Statement of Comprehensive Income
For the year ended 30 June 2020

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

This statement is to be read in conjunction with the notes on pages 10 to 45.

Cavalier Corporation Limited and subsidiary companies

Consolidated Statement of Changes in Equity

For the year ended 30 June 2020

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

This statement is to be read in conjunction with the notes on pages 10 to 45.

Cavalier Corporation Limited and subsidiary companies

Consolidated Statement of Changes in Equity (continued)

For the year ended 30 June 2019

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

This statement is to be read in conjunction with the notes on pages 10 to 45.

Cavalier Corporation Limited and subsidiary companies

Consolidated Statement of Financial Position

As at 30 June 2020

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

This statement is to be read in conjunction with the notes on pages 10 to 45.

Cavalier Corporation Limited and subsidiary companies

Consolidated Statement of Cash Flows

For the year ended 30 June 2020

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

This statement is to be read in conjunction with the notes on pages 10 to 45.

Cavalier Corporation Limited and subsidiary companies

Consolidated Statement of Cash Flows (continued)
For the year ended 30 June 2020

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

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

This statement is to be read in conjunction with the notes on pages 10 to 45.

1 COMPANY INFORMATION

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

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

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

The principal activities of the Group comprise wool acquisition, and carpet and rug manufacturing and sales.

All Group subsidiaries are wholly-owned.

2 GENERAL INFORMATION RELATING TO PREPARATION OF FINANCIAL STATEMENTS

2a. Statement of compliance

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

2b. Basis of preparation

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

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

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

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

2c. Critical accounting estimates and judgements and significant accounting policies

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

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

2c (i) Transformation to the all-wool and natural materials business model

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

On 17 September 2020, the sale and leaseback of the Auckland property was approved by shareholders, with the sale expected to be settled in early October. The net proceeds from the sale of approximately $24,000,000 will be used by the Company to fully repay bank debt, with the balance to be applied towards providing the Group with the financial resources to undertake its strategic transformation.

2c. Critical accounting estimates and judgements and significant accounting policies (continued)

The Group's transformation represents a material change in direction of the business and the forecasts include a significant level of estimation uncertainty and execution risk. Five-year modelling of Cavalier's future financial performance and the investment needed to bring about the transformation has been undertaken by management and external advisers. In summary:

- The surplus cash at the end of FY21, arising primarily as a result of the sell down of non-wool inventory, the sale of the Auckland property and settlement of bank debt during FY21, will also be required in FY22 for the ongoing transformation;

- Total sales revenue for FY21 and FY22 will reduce as Cavalier exits its non-wool carpet business;

- Investment costs, including the restructuring of the Group's operations, will be incurred as the business adjusts its manufacturing and sales base to reflect the new sales focus, with these costs also inclusive of new display stands at retail to expand its market presence;

- Marketing spend and people costs associated with the sustainability initiative will increase as Cavalier will be investing in a number of initiatives to enhance its market presence and ensure its strategy is successfully communicated, understood and implemented – in the process growing the wool flooring market while also growing its share of the wool market;

- As Cavalier's strategy progresses and sales of higher margin, higher value woollen carpets replace and eclipse the previous synthetic carpet sales, Cavalier's financial performance is forecast to improve, with growing revenues expected from FY23 and FY24 onwards as the business builds woollen carpet sales;

- The full benefits from the transformation are expected from FY25 onwards.

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

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

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

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

2c (ii) COVID-19

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

2c (iii) Others

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

Note 7c – inventory provisioning
Note 9b – measurement of provisions
Note 9c – measurement of employee benefits

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

Accounting policies **Estimates, judgements and assumptions**

2d. Going concern

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

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

The Group was able to renegotiate its banking facilities and covenant settings during the year to better reflect the changes in operating conditions, including those brought on by COVID-19. The Group also negotiated the extension of its funding facilities to 1 July 2021 prior to balance date, with the extended banking facilities establishing debt reduction targets and covenant settings that were consistent with management's inventory and debt reduction targets for FY21.

Management forecasts the Group's financial performance, cash flows and financial position as part of its management and monitoring of the Group's operations and its ability to comply with its financial covenants and debt repayment obligations over the term of its banking facilities as well as meet its other financial commitments as they fall due in the normal course of business.

In preparing these forecasts, as detailed at note 6a (Property, plant and equipment) and note 8 (Risks and financial instruments - Liquidity risk), management considered and, where required, made assumptions in relation to:

- the Group's strategic transformation to an all-wool and natural materials business model and, in particular, the capital investments and marketing spends that would be required to execute the transformation and reposition the Group;
- projected growth in woollen sales volumes from the implementation of initiatives underpinning the transformation;
- future economic and market conditions, including the uncertainty brought on by COVID-19;
- NZD/AUD exchange rate changes, after considering hedged positions;
- wool prices movements, after recognising wool purchase contracts;
- net proceeds and ongoing costs from the sale and leaseback of the Auckland property;
- progress being made with the exit from the non-wool carpet business and expected realisation of funds from the sell down of non-wool inventory; and
- manufacturing discipline and cost control.

As discussed at note 9g (Events after balance date) to the financial statements, on 17 September 2020, the shareholders of Cavalier approved the sale and leaseback of the Auckland property with settlement set down for early October 2020. The net proceeds of sale of the Auckland property will be applied in the first instance towards the repayment of bank debt, with the balance to be utilised to provide the Group with the funding required to execute its transformation.

The Board notes that while these financial forecasts and the success of the transformation are highly dependent on the projected increase in woollen carpet sales, it is satisfied that the sell down of non-wool inventory and net proceeds from the sale of the Auckland property, after settlement of the Group's bank debt, will provide it with sufficient liquidity to meet its other financial commitments for a period of at least 12 months following the issuance of the Group's financial statements.

The Board therefore considers the Group to be a going concern while also noting that it is continuing to investigate other additional sources of funding should these be required to enable it to fully execute the transformation strategy.

2e. Basis of consolidation

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

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

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

2f. New and amended accounting standards adopted and changes in accounting policies

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

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

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

3 LEASES AND RIGHT-OF-USE ASSETS

Impact of the adoption of NZ IFRS 16

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

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

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

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

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

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

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

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

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

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

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

Impact of the adoption of NZ IFRS 16 (continued)

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

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

Non-current	6,338
Current	1,438
Lease liabilities recognised as at 1 July 2019	$7,776

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

Right-of-use assets

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

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

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

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

Lease liabilities

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

	Balance 1 Jul 2019 $000	Additions $000	Repayment $000	Remeasurement $000	Balance 30 Jun 2020 $000
Total	$7,776	$243	($1,490)	($2,960)	$3,569

	1 Jul 2019	30 Jun 2020
Non-current	6,338	2,224
Current	1,438	1,345
Total	$7,776	$3,569

Impact of the adoption of NZ IFRS 16 (continued)

Summary of the impact of NZ IFRS 16 on the Income Statement for the year:

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

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

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

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

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

Impact of the adoption of NZ IFRS 16 (continued)

Summary of the impact of NZ IFRS 16 on the presentation of the Consolidated Statement of Cash Flows for the period:

Prior to the adoption of NZ IFRS 16, the total cash outflow relating to operating leases were included in cash paid to suppliers and employees within cash flows from operating activities.

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

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

Accounting policy

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

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

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

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of short-term and low-value assets. Short-term leases are leases with a lease term of 12 months or less. Low-value leases are those for which the underlying asset is of low value. Payments associated with short-term leases and low-value leases are recognised as an expense in the Income Statement on a straight-line basis over the lease term.

The Group has also elected to not separate in respect of motor vehicle leases non-lease components from lease components and instead account for each lease component and any associated non-lease component as a single lease component.

Estimates, judgements and assumptions

The assessment of the incremental borrowing rate used to determine the present value of lease liabilities requires significant judgement.

4. FINANCIAL PERFORMANCE

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

4a. Segment performance

Reportable segments

The Group's reportable and operating segments are:
· carpet sales and manufacturing (Carpet); and
· wool acquisition (Wool).

An operating segment is a component of the Group:

· that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components;

· whose operating results are regularly reviewed by the Group's chief operating decision maker - in this case, the Chief Executive Officer - to make decisions about the resources to be allocated to the segment and to assess its performance; and

· for which discrete financial information is available.

Inter-segment transactions

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

Geographical areas

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

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

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

Major customers

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

4a. Segment performance (continued)

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

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

4b. Earnings per share

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

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

4c. Revenue

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

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

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

Accounting policies

Sale of goods

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

Provision of installation services

Revenue from installation services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion of installation services rendered is determined by having regard to the quantity of carpet installed at balance date relative to the total quantity of carpet required for each contract.

4d. Other income and gains/losses

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

4e. Administration expenses

The following items of expenditure are included in administration expenses:

	2020 $000	2019 $000
Donations	**$3**	$15
Fees paid and payable to KPMG for:		
Audit of financial statements - current year	**371**	168
Audit of financial statements - additional for prior year	**61**	-
Tax services	**20**	30
Other services	**-**	6
Total fees paid and payable to KPMG	**$452**	$204

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

4f. Personnel expenses

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

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

4g. Government grants

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

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

Accounting policies

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

4h. Net finance costs

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

Accounting policies

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

4i. Income tax

	2020 $000	2019 $000
Income tax expense/(benefit) in the income statement		
Current tax expense/(benefit)		
Current year	**773**	(646)
Adjustment for prior years	**(9)**	(99)
	764	(745)
Deferred tax expense/(benefit)		
Origination and reversal of temporary differences	**(8,082)**	(492)
Adjustment for prior years	**9**	93
Derecognition of deferred tax assets	**12,891**	-
	4,818	(399)
Income tax expense/(benefit)	**$5,582**	($1,144)

4i. Income tax (continued)

	2020 $000	2019 $000
Reconciliation of effective tax rate		
Loss after tax for the year	**(21,451)**	(16,780)
Income tax expense/(benefit)	**5,582**	(1,144)
Loss excluding income tax	**($15,869)**	($17,924)
Income tax using the Company's domestic tax rate of 28% (2019: 28%)	**(4,443)**	(5,019)
Impending change in legislation relating to tax depreciation on buildings	**(2,940)**	-
Derecognition of deferred tax assets	**12,890**	-
Share of profit after tax of equity-accounted investees	**-**	(180)
Loss on sale of interest in, and property held by, equity-accounted investees	**-**	3,328
Impairment of goodwill	**-**	661
Non-deductible expenses	**42**	36
Effect of tax rate difference in foreign jurisdiction	**33**	35
Underprovided in prior years	**-**	(6)
Other	**-**	1
Income tax expense/(benefit)	**$5,582**	($1,144)

	2020 $000	2019 $000
Income tax recognised directly in equity		
Derivative financial instruments	**38**	(86)
Income tax on income and expense recognised directly in equity	**$38**	($86)
Imputation credits		
Imputation credits available to shareholders of the Company	**$9,233**	$9,232

Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2020 $000	2019 $000	2020 $000	2019 $000	2020 $000	2019 $000
Property, plant and equipment	**181**	-	**-**	(1,130)	**181**	(1,130)
Right-of-use assets	**-**	-	**-**	-	**-**	-
Derivatives	**-**	-	**-**	-	**-**	-
Inventories	**100**	644	**-**	-	**100**	644
Employee benefits	**130**	1,124	**-**	-	**130**	1,124
Lease liabilities	**146**	-	**-**	-	**146**	-
Provisions	**44**	1,193	**-**	-	**44**	1,193
Tax loss carry-forwards	**-**	3,625	**-**	-	**-**	3,625
Net tax assets/(liabilities)	**$600**	$6,586	**-**	($1,130)	**$600**	$5,456

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

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

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

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

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

4i. Income tax (continued)

Deferred tax assets and liabilities (continued)

Movement in temporary differences during the year:

	Balance 30 June 2019 $000	Recognised on transition to NZ IFRS 16 $000	Recognised in profit or loss $000	Recognised in equity $000	Derecognition of deferred tax assets in profit or loss $000	Balance 30 June 2020 $000
Property, plant and equipment	(1,130)	-	4,476	-	(3,165)	181
Right-of-use assets	-	(2,194)	1,245	-	949	-
Derivatives	-	-	38	(38)	-	-
Inventories	644	-	612	-	(1,156)	100
Employee benefits	1,124	-	(5)	-	(989)	130
Lease liabilities	-	2,177	(349)	-	(1,683)	146
Provisions	1,193	17	(216)	-	(950)	44
Tax loss carry-forwards	3,625	-	2,273	-	(5,898)	-
Total	$5,456	-	$8,073	($38)	($12,891)	$600

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

Accounting policies

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

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

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

Estimates, judgements and assumptions

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

5. CAPITAL AND FUNDING

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

5a. Capital management

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

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

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

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

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

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

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

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

5b. Share capital, dividends and reserves

Share capital

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

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

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

Dividends

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

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

Cash flow hedging reserve

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

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

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

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

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

Foreign currency translation reserve

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

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

5c. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate risks, see note 8 (Risks and financial instruments) to the financial statements.

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

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

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

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

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

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

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

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

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

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

As discussed at note 9g (Events after balance date) to the financial statements, on 17 September 2020, the shareholders of Cavalier approved the sale and leaseback of the Auckland property with settlement set down for early October 2020. Part of the net proceeds of sale of the Auckland property will be used to fully repay Bank debt on settlement date.

6 ASSETS EMPLOYED

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

6a. Property, plant and equipment

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

Auckland property

The Group's property, plant and equipment includes the Auckland property with a carrying value of $12,877,000 that was sold and leased back subsequent to the balance date. The property was not classified as held for sale at the balance date as other funding arrangements for the transformation to an all-wool and natural materials organisation were being considered at that time, and the final offer that was made for the property subsequent to the balance date was subject to consideration and approval of the Directors, Overseas Investment Office (OIO) and shareholder approval.

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

Other assets

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

Impairment

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

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

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

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

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

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

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

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

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

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

Security

At balance date, the Group's property, plant and equipment were subject to various registered charges in favour of the Group's bankers as security for the Group's banking facilities and arrangements (see note 5c (Loans and borrowings) to the financial statements).

Accounting policies

Recognition and measurement

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

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

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	
o fixtures and fittings	10.0% straight line
o computer equipment	20.0 – 25.0% straight line
o motor vehicles and office equipment	20.0% diminishing value

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

Impairment

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

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

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

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

6a. Property, plant and equipment (continued)

Estimates, judgements and assumptions

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

6b. Capital commitments

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

7 WORKING CAPITAL

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

7a. Cash and cash equivalents

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

Accounting policy

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

7b. Trade receivables, other receivables and prepayments

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

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

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

Accounting policy

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

7c. Inventories

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

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

7c. Inventories (continued)

Accounting policies

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

Estimates, judgements and assumptions

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

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

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

7d. Trade payables and accruals

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

8 RISKS AND FINANCIAL INSTRUMENTS

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

Management commentary

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

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

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

Credit risk

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

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

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

The amount and timing of collection of trade receivables and estimate of expected credit losses under NZ IFRS 9 *Financial Instruments* have been considered and included in the financial statements. There has been no indication of a significant change in amounts or timing of receipts from trade receivables as at 30 June 2020 due to the impact of COVID-19.

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

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

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.

As a result of the Group's transformation to an all-wool and natural materials organisation, it expects to generate funds of approximately $17,000,000 from the sell-down of non-wool inventory. Additionally, subsequent to balance date (as discussed at note 9g (Events after balance date) to the financial statements), the Group entered into an agreement for the sale and leaseback of its Auckland property, with the $24,000,000 net proceeds of sale to provide it with the funds to settle the Group's bank debt and provide sufficient liquidity to fund its transformation and settle its ongoing financial obligations for at least 12 months after the date of issuing these financial statements.

The Group's contractual cash flows and liquidity risk profile are set out in detail on page 33.

Foreign currency risk

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

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

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

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

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

Interest rate risk

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

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

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

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

8 RISKS AND FINANCIAL INSTRUMENTS (continued)

Quantitative disclosures

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

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

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

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

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

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

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

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

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

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

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

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

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

8 RISKS AND FINANCIAL INSTRUMENTS (continued)

Quantitative disclosures (continued)

Liquidity risk

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

	Statement of financial position	Total contractual cash flows	Timing of contractual cash flows				
			6 months or less	6-12 months	1-2 years	2-5 years	Greater than 5 years
	$000	$000	$000	$000	$000	$000	$000
2020							
Secured bank loans	**15,800**	**16,206**	**6,048**	**2,158**	**8,000**	**-**	**-**
Trade payables	**8,705**	**8,705**	**8,705**	**-**	**-**	**-**	**-**
Lease liabilities	**3,569**	**3,569**	**689**	**656**	**1,104**	**1,119**	**-**
Total non-derivative liabilities	**$28,074**	**$28,480**	**$15,442**	**$2,814**	**$9,104**	**$1,119**	**-**
Interest rate swaps	**560**	**571**	**166**	**68**	**137**	**200**	**-**
Forward exchange contracts							
Inflow		**(20,478)**	**(16,775)**	**(3,703)**	**-**	**-**	**-**
Outflow		**20,496**	**16,744**	**3,752**	**-**	**-**	**-**
	12	**18**	**(31)**	**49**	**-**	**-**	**-**
Total derivative liabilities	**$572**						
Disclosed in statement of financial position							
Under current liabilities	**732**						
Under current assets	**(160)**						
Total derivative liabilities	**$572**						
2019							
Secured bank loans	20,500	21,440	403	403	20,634	-	-
Trade payables	15,102	15,102	15,102	-	-	-	-
Total non-derivative liabilities	$35,602	$36,542	$15,505	$403	$20,634	-	-
Interest rate swaps	621	575	156	114	135	154	16
Forward exchange contracts							
Inflow		(22,636)	(21,343)	(1,293)	-	-	-
Outflow		21,979	20,738	1,241	-	-	-
	(625)	(657)	(605)	(52)	-	-	-
Total derivative assets	($4)						
Disclosed in statement of financial position							
Under current liabilities	649						
Under current assets	(653)						
Total derivative assets	($4)						

8 RISKS AND FINANCIAL INSTRUMENTS (continued)

Quantitative disclosures (continued)

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

NZD equivalent of these foreign currencies:	AUD $000	USD $000	EUR $000	Others $000
2020				
Trade receivables	**4,699**	**320**	**6**	**-**
Trade payables	**(1,745)**	**(1,130)**	**(1)**	**-**
Net statement of financial position exposure before hedging activity	**2,954**	**(810)**	**5**	**-**
Estimated forecast sales for which hedging is in place	**14,805**	**-**	**-**	**-**
Estimated forecast purchases for which hedging is in place	**-**	**(320)**	**-**	**-**
Net cash flow exposure before hedging activity	**17,759**	**(1,130)**	**5**	**-**
Forward exchange contracts				
Notional amounts	**(17,759)**	**2,618**	**-**	**-**
Net unhedged exposure	**-**	**$1,488**	**$5**	**-**
2019				
Trade receivables	5,196	178	2	28
Trade payables	(2,412)	(4,131)	(1)	(7)
Net statement of financial position exposure before hedging activity	2,784	(3,953)	1	21
Estimated forecast sales for which hedging is in place	9,992	-	-	-
Estimated forecast purchases for which hedging is in place	-	(5,804)	-	-
Net cash flow exposure before hedging activity	12,776	(9,757)	1	21
Forward exchange contracts				
Notional amounts	(12,776)	9,757	-	-
Net unhedged exposure	-	-	$1	$21

8 RISKS AND FINANCIAL INSTRUMENTS (continued)

Quantitative disclosures (continued)

Interest rate risk – re-pricing analysis

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

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

8 RISKS AND FINANCIAL INSTRUMENTS (continued)

Sensitivity analysis

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

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

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

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

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

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

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

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

Hedging

Interest rate hedges

The Group has a policy of ensuring that between 25% and 75% of its exposure to changes in interest rates on borrowings is on a fixed rate basis.

The critical matched terms method is used to assess hedge effectiveness at inception and on an ongoing basis. As the Group will be repaying bank debt within the next 12 months as a result of the sale of the Auckland property as set out at note 9g (Events after balance date) to the financial statements, it has been determined that the interest rate hedges will be ineffective from that time. There was no hedge ineffectiveness in FY19.

Forecast transactions

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

8 RISKS AND FINANCIAL INSTRUMENTS (continued)

The following relates to items designated as hedging instruments:

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

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

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

[3] Hedge ratio 1:1

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

8 RISKS AND FINANCIAL INSTRUMENTS (continued)

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

8 RISKS AND FINANCIAL INSTRUMENTS (continued)

Classification and fair values

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

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

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

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

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

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

8 RISKS AND FINANCIAL INSTRUMENTS (continued)

Classification and fair values (continued)

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

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

Determination of fair values

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

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

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

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

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

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

Master netting or similar agreements

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

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

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

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

9 OTHERS

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

9a. Equity-accounted investees

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

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

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

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

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

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

9b. Provisions

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

Workplace accidents

Certain companies within the Group are parties to the ACC Partnership Programme under which these companies assume the costs normally assumed by ACC (Accident Compensation Corporation of New Zealand) for accidents in the workplace, with the provision for claims incurred but yet to be settled.

Make good

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

Onerous contracts

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

Warranties

The provision for warranties relates mainly to carpet sold during the years ended 30 June 2020 and 2019. The provision is based on estimates made from historical warranty data associated with similar products sold by the Group.

Warranties relating to the sale of carpet are standard warranties. The Group does not offer extended warranties that would be subject to a separate performance obligation.

Accounting policies

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

Estimates, judgements and assumptions

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

9c. Employee benefits

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

Accounting policies

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

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

Estimates, judgements and assumptions

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

9d. Contingencies

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

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

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

9e. Related parties

Transactions with directors and key management personnel

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

As shareholders

Some of the Directors are shareholders in the Company.

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

As lenders or borrowers

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

Directors' remuneration and benefits

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

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

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

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

The Directors agreed to a 20% reduction in fees from 1 April 2020 to 31 July 2020 in response to the uncertain COVID-19 operating environment.

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

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

Key management personnel's (including the Chief Executive Officer's) remuneration and benefits

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

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

The remuneration paid and payable, and the benefits provided, to the Chief Executive Officer and key management personnel (but excluding the Directors' remuneration and benefits which are set out on the previous page) comprised:

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

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

Other transactions

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

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

9f. Group entities

Operating subsidiaries of the Group

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

Equity-accounted investees of the Group

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

9g. Events after balance date

On 17 September 2020, the shareholders of Cavalier approved the sale and leaseback of the Auckland property. The net proceeds of sale of the Auckland property are expected to be in the vicinity of $24,000,000, after real estate agent commission and other expenses such as legal fees, with settlement scheduled to take place in early October 2020.

As disclosed at note 2d (General information relating to preparation of financial statements - Going concern) and note 5c (Loans and borrowings) to the financial statements, the net proceeds of sale of the Auckland property will be applied in the first instance towards the repayment of bank debt, with the balance to be utilised to provide the Group with the funding required to execute its transformation into an all-wool business and natural materials organisation.

The initial term of the leaseback is 14 years plus one right of renewal of six years, with net rent at commencement date of $1,600,000 per annum and a 2.5% increase in rent per annum on each anniversary of the commencement date (except where that anniversary coincides with a market rent review date). Market rent reviews will take place on the sixth anniversary of the commencement date and on renewal date, with market rent to be no less than 90% or greater than 110% of the annual rent immediately preceding the relevant rent review date.

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

9h. Standards, interpretations and amendments to standards

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

NON-GAAP FINANCIAL INFORMATION

CONTENTS

Cavalier Corporation Limited and subsidiary companies

Trend Statement

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

	2020 $000	2019 $000	2018 $000	2017 $000	2016 $000	2015 $000	2014 $000
Abnormal items (after tax)							
Impairment of carpet tile business assets	**-**	-	-	-	-	(9,132)	-
Impairment of plant and equipment	**(5,095)**	(4,413)	-	-	(1,573)	(4,344)	-
Impairment of right-of-use assets	**(2,094)**	-	-	-	-	-	-
Impairment of intangible assets	**-**	(2,362)	-	-	-	(5,432)	-
Impending change in legislation relating to tax depreciation on buildings	**2,940**	-	-	-	-	-	-
Derecognition of deferred tax assets	**(12,890)**	-	-	-	-	(6,771)	-
Restructuring costs	**(854)**	-	136	(4,542)	(3,222)	(711)	-
Reversal of impairment of fixed assets	**-**	-	99	1,083	-	-	-
Gain on sale of property	**-**	-	-	-	2,035	-	-
Scour merger costs	**-**	-	(128)	(738)	(438)	(520)	-
Gain on merger and dilution of equity-accounted investee	**-**	-	-	3,929	-	-	-
Loss on sale of interest in, and property held by, equity-accounted investees	**-**	(11,884)	-	-	-	-	-
Total	**($17,994)**	($18,659)	$107	($268)	($3,198)	($26,910)	-

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

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

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

Trend Statement (continued)

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

Cavalier Corporation Limited and subsidiary companies

Trend Statement (continued)

Glossary of financial terms

EBITDA	Earnings before interest, tax, depreciation and amortisation
EBIT	Earnings before interest and tax
EBITDA (normalised)	Earnings before abnormal costs, interest, tax, depreciation and amortisation
EBIT (normalised)	Earnings before abnormal costs, interest and tax
Net assets	Total assets less total liabilities

Use of funds and Return on investment

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

Financial structure

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

Return to shareholders

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

Disclosure of Non-GAAP Financial Information

The Directors acknowledge that the Annual Report, including the Trend Statement from pages 51 to 53, contains financial information that is non-GAAP (Generally Accepted Accounting Practice) and therefore falls within the Financial Markets Authority's guidance note on "Disclosing non-GAAP financial information" issued in July 2017.

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

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

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

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

Non-GAAP financial information does not have standardised meaning prescribed by GAAP and therefore may not be comparable to similar financial information prescribed by other entities.

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

- outlining why non-GAAP financial information is useful to investors and how it is used internally by management;
- identifying the source of non-GAAP financial information;
- ensuring that:
  - non-GAAP financial information is not presented with undue and greater prominence, emphasis or authority than the most directly comparable GAAP financial information;
  - presentation of non-GAAP financial information does not in any way confuse or obscure presentation of GAAP financial information;
  - a reconciliation from the non-GAAP financial information to the most directly comparable GAAP financial information, including that for the previous period, can be easily accessed (see below);
  - a consistent approach is adopted from period to period with respect to the presentation of non-GAAP financial information, including that for comparative periods;
  - where there is any change in approach from the previous period, the nature of the change is explained and the reasons and financial impact provided;
  - non-GAAP financial information is unbiased; and
- taking care when describing, or referring to, items as 'one-off' or 'non-recurring'.

Cavalier Corporation Limited and subsidiary companies

Disclosure of Non-GAAP Financial Information (continued)

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

	Year ended 30 June 2020			Year ended 30 June 2019		
	GAAP $000	Adjustments $000	Normalised $000	GAAP $000	Adjustments $000	Normalised $000
Revenue	**$117,981**	**-**	**$117,981**	$135,234	-	$135,234
EBITDA	**(8,872)**	**11,172**	**2,300**	(1,415)	8,491	7,076
Depreciation - owned assets	**(2,683)**	**-**	**(2,683)**	(3,479)	-	(3,479)
Depreciation - right-of-use assets	**(1,779)**	**-**	**(1,779)**	-	-	-
EBIT	**(13,334)**	**11,172**	**(2,162)**	(4,894)	8,491	3,597
Net interest expense	**(2,535)**	**-**	**(2,535)**	(1,790)	-	(1,790)
Share of profit after tax of equity-accounted investees	**-**	**-**	**-**	644	-	644
Loss on sale of interest in, and property held by, equity-accounted investees	**-**	**-**	**-**	(11,884)	11,884	-
(Loss)/Profit before tax	**(15,869)**	**11,172**	**(4,697)**	(17,924)	20,375	2,451
Tax benefit/(expense)	**(5,582)**	**6,822**	**1,240**	1,144	(1,716)	(572)
(Loss)/Profit after tax	**(21,451)**	**17,994**	**(3,457)**	(16,780)	18,659	1,879
Abnormal net loss after tax		**(17,994)**	**(17,994)**		(18,659)	(18,659)
(Loss)/Profit after tax (GAAP)		**-**	**($21,451)**		-	($16,780)

Analysis of abnormal items	(Loss)/Profit before tax	Tax effect	(Loss)/Profit after tax	(Loss)/Profit before tax	Tax effect	(Loss)/Profit after tax
	$000	$000	$000	$000	$000	$000
Restructuring costs	(1,186)	332	(854)	-	-	-
Impairment of plant and equipment	(7,077)	1,982	(5,095)	(6,129)	1,716	(4,413)
Impairment of right-of-use assets	(2,909)	815	(2,094)	-	-	-
Impending change in legislation relating to tax depreciation on buildings	-	2,940	2,940	-	-	-
Derecognition of deferred tax assets	-	(12,890)	(12,890)	-	-	-
Impairment of goodwill	-	-	-	(2,362)	-	(2,362)
Loss on sale of interest in, and property held by, equity-accounted investees	-	-	-	(11,884)	-	(11,884)
	($11,172)	**($6,822)**	**($17,994)**	**($20,375)**	**$1,716**	**($18,659)**

Calculation of basic and diluted (loss)/earnings per share under GAAP and non-GAAP measures of profit/loss after tax	**GAAP-compliant reported (loss)/profit after tax**	**Reverse abnormal items (net of tax)**	**Non-GAAP-compliant normalised (loss)/profit after tax**
Year ended 30 June 2020			
Loss attributable to shareholders ($000)	**($21,451)**	**$17,994**	**($3,457)**
Weighted average number of ordinary shares	**68,679,098**		**68,679,098**
Loss per share (basic and diluted) (cents)	**(31.2)**		**(5.0)**
Year ended 30 June 2019			
(Loss)/Profit attributable to shareholders ($000)	**($16,780)**	**$18,659**	**$1,879**
Weighted average number of ordinary shares	**68,679,098**		**68,679,098**
(Loss)/Earnings per share (basic and diluted) (cents)	**(24.4)**		**2.7**