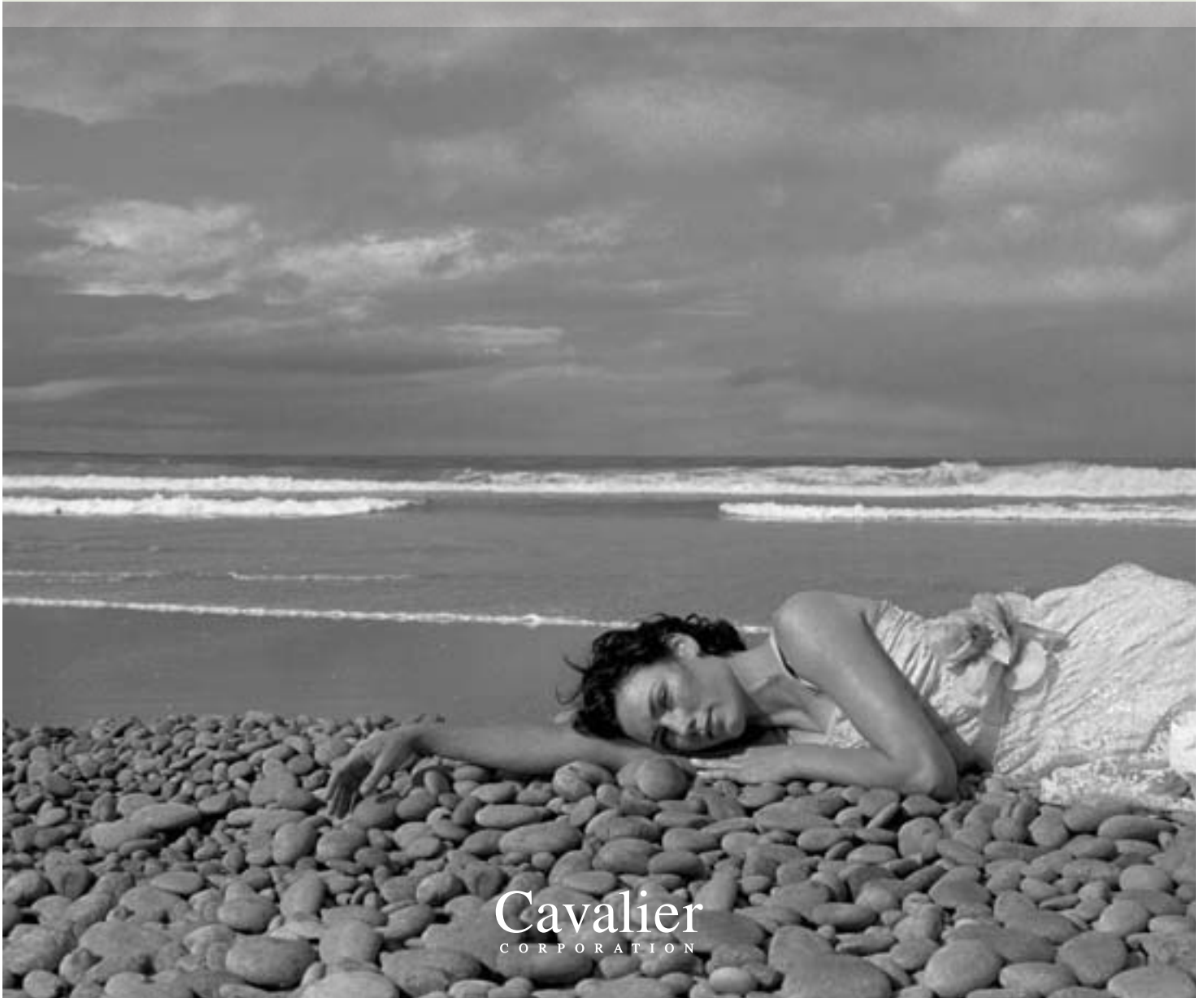


CAVALIER CORPORATION | ANNUAL REPORT 2002

# financial statements and other disclosures



Cavalier  
CORPORATION

“In this year’s numbers, shareholders can now see, for the first time, the full benefit of the Company’s restructuring.”

**A M JAMES, MANAGING DIRECTOR**

The 2002 Annual Report of Cavalier Corporation Limited comprises two documents – the 2002 Annual Review and the 2002 Financial Statements and Other Disclosures. As required by section 211(1)(k) of the Companies Act 1993, this document – the 2002 Financial Statements and Other Disclosures – is signed on behalf of the Board on 27 September 2002 by:



A C Timpson, Chairman



A M James, Managing Director

## financial statements

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# audit report

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## TO THE SHAREHOLDERS OF CAVALIER CORPORATION LIMITED

We have audited the financial statements on pages 4 to 21. The financial statements provide information about the past financial performance and financial position of the Company and Group as at 30 June 2002. This information is stated in accordance with the accounting policies set out on pages 4 and 5.

### DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the Company and Group as at 30 June 2002 and the results of their operations and cash flows for the year ended on that date.

### AUDITORS' RESPONSIBILITIES

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to you.

### BASIS OF OPINION

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Directors in the preparation of the financial statements;
- whether the accounting policies are appropriate to the Company's and Group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

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

### UNQUALIFIED OPINION

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the Company as far as appears from our examination of those records;
- the financial statements on pages 4 to 21:
  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the Company and Group as at 30 June 2002 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 23 August 2002 and our unqualified opinion is expressed as at that date.

AUCKLAND

# directors' responsibility statement

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**DIRECTORS' RESPONSIBILITIES**

The Directors are responsible for the preparation of the financial statements. The Directors discharge this responsibility by ensuring that the financial statements comply with generally accepted accounting practice and give a true and fair view of the financial position of the Company and Group as at balance date and of their financial performance and cash flows for the year ended on that date.

**ACCOUNTING POLICIES**

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

**ACCOUNTING RECORDS**

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

**SAFEGUARDING OF ASSETS AND INTERNAL CONTROLS**


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

**FINANCIAL STATEMENTS**

The Directors are pleased to present, on pages 4 to 21, the financial statements of the Company and Group for the year ended 30 June 2002.

These financial statements were authorised for issue by the Directors on 23 August 2002 and, as required by section 211(1)(b) of the Companies Act 1993 and sections 10 and 13 of the Financial Reporting Act 1993, are signed and dated as at that date.

For and on behalf of the Directors:



A C Timpson  
Chairman



A M James  
Managing Director

# statement of accounting policies

## REPORTING ENTITY

Cavalier Corporation Limited is a company registered under the New Zealand Companies Act 1993 and is listed on the New Zealand Stock Exchange. The Group consists of Cavalier Corporation Limited and its subsidiaries. Cavalier Corporation Limited is an issuer for the purposes of the New Zealand Financial Reporting Act 1993 and is, accordingly, a reporting entity that is required to comply with the provisions of that Act and with generally accepted accounting practice.

## MEASUREMENT BASE

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position under the historical cost method have been adopted in the preparation of these financial statements, except where modified by the revaluation of certain assets. Reliance is placed on the fact that the Group is a going concern.

## ACCOUNTING POLICIES

The following specific accounting policies which significantly affect the measurement of financial performance and financial position have been applied:

- 1 PRINCIPLES OF CONSOLIDATION.** The consolidated financial statements are prepared from the audited financial statements of the Company and its subsidiary companies.

The results of any subsidiaries acquired or disposed of during the year are included in the consolidated Statement of Financial Performance from the date of acquisition or up to the date of disposal. All significant transactions between group companies are eliminated on consolidation.
- 2 OPERATING REVENUE.** Operating revenue shown in the Statement of Financial Performance includes the amounts received and receivable by the Group for goods and services supplied to customers in the ordinary course of business. Operating revenue is stated exclusive of Goods and Services Tax charged to customers.
- 3 FIXED ASSETS.** Fixed assets are stated in the financial statements at their gross carrying amount less depreciation. Gross carrying amount of a fixed asset is either the initial cost or the revalued amount, adjusted for additions, improvements, and disposals and is the recoverable amount where this is lower than the initial cost or the revalued amount.
- 4 DEPRECIATION.** Depreciation is charged so as to write off the initial cost or revalued amount of fixed assets to their estimated residual value over their expected economic lives.

The principal rates used are as follows:

Land	Nil
Buildings	1.0–2.5% straight line
Plant and equipment	6.7–10.0% straight line
Other assets	
– computer equipment	20.0–25.0% straight line
– motor vehicles and office equipment	20.0% diminishing value
– fixtures and fittings	10.0% straight line
- 5 GOODWILL.** The excess of cost over the fair value of assets acquired is capitalised as goodwill and is amortised to the Statement of Financial Performance over 10 years.
- 6 DEBTORS.** Trade debtors are stated at estimated realisable value after providing against debts where collection is doubtful. Hire purchase debtors are stated at net of provisions for unearned finance income and doubtful debts.
- 7 UNEARNED FINANCE INCOME.** Unearned finance income in respect of hire purchase debtors is recognised in the Statement of Financial Performance using the “rule of 78” on the net hire purchase debtors outstanding.
- 8 RESEARCH AND DEVELOPMENT EXPENDITURE.** Research and development expenditure is charged to the Statement of Financial Performance as it is incurred, except that development costs, for clearly defined products, are capitalised to the extent that related future economic benefits, net of further costs to final commercialisation, are expected, with reasonable certainty, to exceed these costs. Capitalised development costs will, upon the commencement of commercial production, be progressively amortised to the Statement of Financial Performance over the period of expected benefit.

**9 STOCKS.** Stocks of the carpet business are stated at the lower of cost and net realisable value. Cost is determined on a first-in first-out basis, and in the case of carpet stocks, includes direct materials, labour, and production overheads. Carpet work-in-progress includes direct materials and a portion of direct labour and production overheads appropriate to the stage of completion attained.

Stocks of the wool business are stated at the lower of cost and net realisable value. Cost of wool stocks is determined using the weighted average cost formula, and in the case of scoured wool stocks, includes direct materials, labour, and production overheads. Wool work-in-progress includes direct materials and a portion of direct labour and production overheads appropriate to the stage of completion attained. Cost of all other stocks is determined on a first-in first-out basis.

**10 SHAREHOLDERS' EQUITY.** When shares recognised within shareholders' equity are repurchased or cancelled, the amount of consideration paid, including directly attributable costs, is recognised as a distribution in the Statement of Movements in Equity.

**11 SHARE RIGHTS.** The estimated fair value of rights issued to senior executives under the Cavalier Corporation Limited 2000 Executive Share Rights Plan is recognised as an expense over the minimum three-year period between the issue date of the rights and the earliest exercise date of the rights. At the same time, a corresponding amount is recognised as a credit to equity in the Statement of Movements in Equity. The estimated fair value of the rights issued is determined using the Black-Scholes option pricing model.

Where rights lapse before they can be exercised, the amounts previously recognised as expenses are reversed and a corresponding debit against equity is recognised in the Statement of Movements in Equity.

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

**12 INCOME TAX.** The income tax expense for the year comprises income tax payable, calculated at current rates, on assessable income for the year, adjusted for income taxes deferred or prepaid in respect of all timing differences reversing or originating in the year.

The liability method of tax effect accounting is applied on a comprehensive basis to all timing differences. Under this method, the income tax effects of all currently outstanding timing differences are determined and reported, either as liabilities for income tax payable in the future or as assets representing future income tax benefits. The income tax effect of cumulative timing differences is adjusted for any changes in income tax rates.

Future income tax benefits are not recognised unless realisation of the asset is virtually certain.

**13 FOREIGN CURRENCIES.** Foreign currency transactions, including those of foreign operations, are recorded at the exchange rates in effect at the dates of the transactions, except where foreign currency forward exchange contracts have been taken out to cover forward currency commitments. Where foreign currency forward exchange contracts have been taken out, the transactions are translated at the rates contained in the contracts.

Unhedged foreign currency monetary assets and liabilities, including those of foreign operations, are translated to New Zealand dollars at the rates of exchange ruling at balance date. Profits and losses due to currency fluctuations on these items are recognised by way of a credit or charge in the Statement of Financial Performance.

Foreign currency non-monetary assets, including those of foreign operations, are converted to New Zealand dollars at the rates of exchange in effect when the amounts of these assets were determined.

Where foreign currency monetary liabilities are designated as hedges against foreign currency non-monetary assets, the assets are translated at the rates of exchange ruling at balance date, and the gains or losses due to currency fluctuations on both the foreign currency liabilities and assets are transferred to the foreign currency translation reserve.

**14 FINANCIAL INSTRUMENTS.** Off balance sheet financial instruments, entered into as hedges of an underlying position, are accounted for on the same basis as the underlying position with all profits and losses dealt with in the same manner as the corresponding profits and losses on the related underlying position.

Off balance sheet financial instruments, entered into with no corresponding underlying position, are accounted for on a mark-to-market basis and the profits or losses recognised by way of a credit or charge in the Statement of Financial Performance.

#### **CHANGES IN ACCOUNTING POLICIES**

There have been no changes in accounting policies.

## statements of financial performance

FOR THE YEAR ENDED 30 JUNE 2002	NOTES	G R O U P		P A R E N T	
		2002 \$000	2001 \$000	2002 \$000	2001 \$000
<b>OPERATING REVENUE</b>					
From continuing activities	2	161,215	124,522	13,875	11,875
From discontinued activities	2	3,572	64,258	-	-
		<b>\$164,787</b>	\$188,780	<b>\$13,875</b>	\$11,875
<b>OPERATING SURPLUS BEFORE INTEREST AND INCOME TAX</b>					
From continuing activities	3	22,402	22,222	10,865	8,737
From discontinued activities	3	6	(4,956)	-	-
		<b>22,408</b>	17,266	<b>10,865</b>	8,737
Net Interest Expense		(1,888)	(974)	-	-
<b>OPERATING SURPLUS BEFORE INCOME TAX</b>		<b>20,520</b>	16,292	<b>10,865</b>	8,737
Income Tax Expense	4	(6,986)	(5,297)	(313)	(209)
<b>OPERATING SURPLUS AFTER INCOME TAX <sup>1</sup></b>		<b>13,534</b>	10,995	<b>10,552</b>	8,528
Minority Interest in Surplus of Subsidiary		(383)	(746)	-	-
<b>NET OPERATING SURPLUS ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY</b>		<b>\$13,151</b>	\$10,249	<b>\$10,552</b>	\$8,528
<sup>1</sup> <b>OPERATING SURPLUS AFTER INCOME TAX</b>					
From continuing activities		13,530	13,818	10,552	8,528
From discontinued activities		4	(2,823)	-	-
		<b>\$13,534</b>	\$10,995	<b>\$10,552</b>	\$8,528

These statements are to be read in conjunction with the Statement of Accounting Policies on pages 4 and 5, the Notes on pages 10 to 21, and the Audit Report on page 2.

## statements of movements in equity

FOR THE YEAR ENDED 30 JUNE 2002	NOTES	G R O U P		P A R E N T	
		2002 \$000	2001 \$000	2002 \$000	2001 \$000
<b>EQUITY AT BEGINNING OF THE YEAR</b>		<b>55,198</b>	80,095	<b>24,879</b>	52,374
<b>RECOGNISED REVENUES AND EXPENSES FOR THE YEAR</b>					
Operating surplus after income tax – of shareholders of the Company		<b>13,151</b>	10,249	<b>10,552</b>	8,528
of minority shareholders of subsidiary		<b>383</b>	746	–	–
Share rights reserve	6	<b>83</b>	36	<b>83</b>	36
		<b>13,617</b>	11,031	<b>10,635</b>	8,564
<b>CONTRIBUTIONS FROM OWNERS DURING THE YEAR</b>					
Minority shareholders of subsidiary		–	1,078	–	–
<b>DISTRIBUTIONS TO OWNERS DURING THE YEAR</b>					
Minority shareholders of subsidiary – purchase of shares in subsidiary		–	(873)	–	–
dividends paid by subsidiary		<b>(252)</b>	(74)	–	–
Shareholders of the Company – return of capital		–	(25,262)	–	(25,262)
previous year's final dividend		<b>(5,038)</b>	(5,039)	<b>(5,038)</b>	(5,039)
current year's 1st interim dividend		<b>(2,204)</b>	(2,159)	<b>(2,204)</b>	(2,159)
current year's 2nd interim dividend		<b>(3,622)</b>	(3,599)	<b>(3,622)</b>	(3,599)
		<b>(11,116)</b>	(37,006)	<b>(10,864)</b>	(36,059)
<b>EQUITY AT END OF THE YEAR</b>		<b>\$57,699</b>	\$55,198	<b>\$24,650</b>	\$24,879

These statements are to be read in conjunction with the Statement of Accounting Policies on pages 4 and 5, the Notes on pages 10 to 21, and the Audit Report on page 2.

## statements of financial position

AS AT 30 JUNE 2002	NOTES	G R O U P		P A R E N T	
		2002 \$000	2001 \$000	2002 \$000	2001 \$000
Shareholders' equity					
Attributable to shareholders of the Company	5	56,691	54,321	24,650	24,879
Attributable to minority shareholders of subsidiary		1,008	877	-	-
<b>SHAREHOLDERS' EQUITY</b>		<b>57,699</b>	<b>55,198</b>	<b>24,650</b>	<b>24,879</b>
Term liabilities	7	26,467	13,595	-	-
Current liabilities	14	21,776	41,508	16,594	25,706
<b>SHAREHOLDERS' EQUITY AND TOTAL LIABILITIES</b>		<b>\$105,942</b>	<b>\$110,301</b>	<b>\$41,244</b>	<b>\$50,585</b>
Fixed assets	8	40,395	39,250	-	-
Investments	9	-	-	22,540	22,540
Goodwill		2,388	2,696	-	-
Development expenditure	10	3,725	2,809	-	-
Term receivables	11	113	1,272	-	-
Deferred tax asset	12	1,686	2,448	22	39
<b>NON-CURRENT ASSETS</b>		<b>48,307</b>	<b>48,475</b>	<b>22,562</b>	<b>22,579</b>
Current assets	13	57,635	61,826	18,682	28,006
<b>TOTAL ASSETS</b>		<b>\$105,942</b>	<b>\$110,301</b>	<b>\$41,244</b>	<b>\$50,585</b>

These statements are to be read in conjunction with the Statement of Accounting Policies on pages 4 and 5, the Notes on pages 10 to 21, and the Audit Report on page 2.

## statements of cash flows

FOR THE YEAR ENDED 30 JUNE 2002	NOTES	GROUP		PARENT	
		2002 \$000	2001 \$000	2002 \$000	2001 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
<b>CASH WAS PROVIDED FROM:</b>					
Receipts from sales of goods and services		163,439	186,425	-	-
Other receipts		219	201	3,875	3,875
Dividends received		-	-	10,000	8,000
Interest received		234	227	-	-
GST refunded		-	366	-	-
<b>CASH WAS APPLIED TO:</b>					
Payments to suppliers		(101,056)	(108,210)	(655)	(716)
Payments to employees		(30,608)	(32,087)	(2,320)	(2,379)
Rebates and discounts to customers		(3,440)	(3,400)	-	-
Income tax paid		(7,220)	(4,710)	(243)	(17)
Interest paid		(1,872)	(1,295)	-	-
GST paid		(1,169)	-	-	-
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	15	<b>18,527</b>	37,517	<b>10,657</b>	8,763
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
<b>CASH WAS PROVIDED FROM:</b>					
Fixed assets sold		3,345	2,856	-	-
<b>CASH WAS APPLIED TO:</b>					
Fixed assets purchased		(4,674)	(10,655)	-	-
Purchase of shares in subsidiary		-	(3,323)	-	-
<b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>		<b>(1,329)</b>	(11,122)	-	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
<b>CASH WAS PROVIDED FROM:</b>					
Minority shareholders of subsidiary		-	1,078	-	-
Term loans raised		15,150	2,500	-	-
Advances from subsidiaries		-	-	26,097	2,792
<b>CASH WAS APPLIED TO:</b>					
Advances to subsidiaries		-	-	(691)	(693)
Term loans settled		-	(17,250)	-	-
Return of capital to shareholders of the Company		(25,197)	-	(25,197)	-
Costs relating to capital repayment		-	(65)	-	(65)
Dividends paid -					
to shareholders of the Company		(10,864)	(10,797)	(10,864)	(10,797)
to minority shareholders of subsidiary		(252)	(74)	-	-
<b>NET CASH OUTFLOW FROM FINANCING ACTIVITIES</b>		<b>(21,163)</b>	(24,608)	<b>(10,655)</b>	(8,763)
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>		<b>(3,965)</b>	1,787	<b>2</b>	-
Cash at beginning of the year		(194)	(2,024)	-	-
Effect of exchange rate changes on cash		12	43	-	-
<b>CASH AT END OF THE YEAR</b>	15	<b>\$(4,147)</b>	\$(194)	<b>\$2</b>	-

These statements are to be read in conjunction with the Statement of Accounting Policies on pages 4 and 5, the Notes on pages 10 to 21, and the Audit Report on page 2.

# notes to the financial statements

## 1 PRINCIPAL SUBSIDIARIES AND ACTIVITIES

The principal subsidiaries of the Company and their activities are:

- Cavalier Bremworth Limited – carpet manufacturing and distribution
- Cavalier Bremworth (Australia) Limited – carpet distribution
- Cavalier Spinners Limited – carpet yarn manufacturing
- Knightsbridge Carpets Limited – carpet distribution
- Kimberley Carpets Proprietary Limited – carpet distribution
- Hawkes Bay Woolscourers Limited – commission wool scouring
- Elco Direct Limited – wool procurement
- Microbial Technologies Limited – bio-pesticides development

All subsidiaries have 30 June balance dates. Apart from Hawkes Bay Woolscourers Limited, which is 76% owned, all other subsidiaries are wholly owned.

The Group's principal activities comprise a carpet business, a commission wool scouring business, and a wool procurement business.

Cavalier Bremworth, the carpet business, operates two woollen yarn spinning plants and a carpet plant – all New Zealand-based – and has major distribution centres in Auckland and Sydney and sales offices throughout New Zealand and Australia and in Hong Kong. It has agents or distributors in the USA, Canada, the UK, the Middle East, and throughout Asia. The business markets carpet under the Bremworth, Cavalier Bremworth, Knightsbridge, Kimberley, and Tramore brands.

Hawkes Bay Woolscourers, the commission wool scouring business, provides a commission wool scouring service for the wool exporting industry and scours all of the Group's carpet wool requirements.

Likewise, Elco Direct, the wool procurement business, is a service provider to both the wool industry and the Group's carpet business.

The Group is also engaged in a developmental venture through its subsidiary, Microbial Technologies Limited. The venture involves the utilisation of a natural biological control agent for the control of flystrike and lice infestations in sheep.

	G R O U P		P A R E N T	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
<b>2 OPERATING REVENUE</b>				
Operating revenue as per the Statement of Financial Performance comprises:				
<b>CONTINUING ACTIVITIES</b>				
Sales of goods and services	160,762	124,094	-	-
Rentals received	219	201	-	-
Dividends received	-	-	10,000	8,000
Interest received	234	227	-	-
Management fee received	-	-	3,875	3,875
	<b>\$161,215</b>	\$124,522	<b>\$13,875</b>	\$11,875
<b>DISCONTINUED ACTIVITIES</b>				
Sales of goods	3,572	63,705	-	-
Interest received	-	553	-	-
	<b>\$3,572</b>	\$64,258	-	-

	G R O U P		P A R E N T	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
<b>3 OPERATING SURPLUS BEFORE INTEREST AND INCOME TAX</b>				
The operating surplus before interest and income tax as per the Statement of Financial Performance is stated:				
<b>CONTINUING ACTIVITIES</b>				
<b>AFTER CHARGING –</b>				
Fees paid to the auditors:				
for audit of financial statements	48	88	6	8
for other professional services provided	14	78	–	41
Fees paid to auditors of a subsidiary	5	8	–	–
Amortisation of goodwill	308	104	–	–
Bad debts written off	24	51	–	–
Changes in doubtful debt provision	3	4	–	–
Depreciation	3,094	2,553	–	–
Directors' fees	124	124	124	124
Donations	3	4	–	–
Loss on sale of fixed assets	9	9	–	–
Operating lease and rental costs	1,071	1,163	–	–
<b>AFTER CREDITING –</b>				
Foreign currency gains	12	43	–	–
Gain on sale of fixed assets	47	38	–	–
<b>DISCONTINUED ACTIVITIES</b>				
<b>AFTER CHARGING –</b>				
Fees paid to the auditors:				
for audit of financial statements	–	25	–	–
Bad debts written off	865	–	–	–
Changes in doubtful debt provision	–	1,220	–	–
Closure costs	–	3,052	–	–
Depreciation	–	412	–	–
Diminution in value of fixed assets	–	60	–	–
Operating lease and rental costs	–	31	–	–
<b>AFTER CREDITING –</b>				
Changes in doubtful debt provision	849	–	–	–
Gain on sale of fixed assets	–	873	–	–

# notes to the financial statements (continued)

	G R O U P		P A R E N T	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
<b>4 INCOME TAX EXPENSE</b>				
Operating surplus before income tax as per the Statement of Financial Performance	<b>\$20,520</b>	\$16,292	<b>\$10,865</b>	\$8,737
<b>THE INCOME TAX EXPENSE HAS BEEN CALCULATED AS FOLLOWS:</b>				
Income tax on the operating surplus for the year at 33%	<b>(6,772)</b>	(5,376)	<b>(3,585)</b>	(2,883)
Plus/(Less) taxation effect of:				
Depreciation on revaluations	<b>(17)</b>	(17)	-	-
Dividends received	-	-	<b>3,300</b>	2,640
Non-deductible items	<b>(173)</b>	(173)	<b>(28)</b>	(12)
Non-assessable items	<b>2</b>	371	-	-
Prior year adjustments	<b>(26)</b>	(102)	-	46
	<b>(214)</b>	79	<b>3,272</b>	2,674
Income tax expense	<b>\$(6,986)</b>	\$(5,297)	<b>\$(313)</b>	\$(209)
<b>THE INCOME TAX EXPENSE IS REPRESENTED BY:</b>				
Current tax	<b>(6,224)</b>	(6,037)	<b>(296)</b>	(210)
Deferred tax	<b>(762)</b>	740	<b>(17)</b>	1
	<b>\$(6,986)</b>	\$(5,297)	<b>\$(313)</b>	\$(209)

## 5 SHAREHOLDERS' EQUITY

There is only one class of share in the Company. The number of shares on issue at 30 June 2002 was 31,490,610, fully paid up (2001 31,490,610, fully paid up). All shares within this class rank pari passu in all respects.

The Company cancelled, on 30 June 2001, 4,499,451 shares on issue as at 29 June 2001 pursuant to the terms of a Court approved scheme of arrangement for the return of \$25,197,000 of surplus capital to shareholders. The return of capital was approved by shareholders at a special meeting held on 1 June 2001, and the final order from the High Court of New Zealand sanctioning the return was received on 13 June 2001. However, because this amount, which works out at \$5.60 for each of the shares cancelled, was not paid out until 6 July 2001, it was shown as an amount owing to shareholders at 30 June 2001.

## 6 EXECUTIVE SHARE RIGHTS PLAN

The details of share rights issued under the Cavalier Corporation Limited 2000 Executive Share Rights Plan ("the Plan") to the executive Directors of the Company and to selected senior executives of the Group were as follows:

	P A R E N T	
	2002 000	2001 000
Balance at beginning of the year	<b>1,740</b>	-
Share rights issued	<b>800</b>	1,800
Share rights lapsed	-	(60)
Balance at end of the year	<b>2,540</b>	1,740

## 6 EXECUTIVE SHARE RIGHTS PLAN (CONTINUED)

The Plan seeks to align the interests of senior executives with those of shareholders by having an element of the senior executives' total remuneration linked to the returns enjoyed by shareholders, thereby providing them with the incentive to increase value for shareholders. At the same time, because the rewards under the Plan would not crystallise for at least three years, it also enables the Group to retain these senior executives for their loyalty, experience, and continuing performance.

The rights holders' rewards under the Plan will be determined on the exercise date by multiplying the difference between the market price of the Company's shares and the adjusted base price at exercise date by the number of rights exercised at that date. These rewards are then divided by the market price of the Company's shares at exercise date to give the number of shares to be issued to the holders, subject to a maximum of one share for every 1.8 rights exercised.

The adjusted base price is the market price of the Company's shares at issue date plus an escalation factor, being the Company's tax paid cost of equity capital between issue date and exercise date, and then adjusted downwards for dividends paid between these two dates. Based on the observed trading performance of the Company's share price relative to the New Zealand share market over the previous five years, the after tax cost of the Company's equity capital was estimated to be 10% per annum at the issue dates, being 6 December 2000 and 9 November 2001. The market prices of the Company's shares at these issue dates were \$4.26 per share and \$5.66 per share respectively.

Based on the current dividend policy of the Company, the rights holders' rewards under various market price scenarios at the earliest possible exercise date of 1 March 2004 in respect of the 1,740,000 rights issued on 6 December 2000 can be best illustrated thus:

	SCENARIO 1	SCENARIO 2	SCENARIO 3	SCENARIO 4
Market price (A) at exercise date	\$4.50 or less	\$6.00	\$10.13	\$11.50
Estimated adjusted base price (B) at exercise date	\$4.50	\$4.50	\$4.50	\$4.50
Rights holders' rewards (being (A-B) x 1,740,000 rights issued on 6 December 2000)	Nil	\$2,610,000	\$9,796,000	\$12,180,000
Number of shares to be issued (being rights holders' rewards divided by market price), subject to maximum of one share for every 1.8 rights/967,000 shares	Nil	435,000	967,000	967,000
Dilution effect (maximum 3.1%, when market price reaches \$10.13 at exercise date)	Nil	1.4%	3.1%	3.1%

In the case of the 800,000 rights issued on 9 November 2001 and based on the earliest possible exercise date of 9 November 2004, the market price at which the maximum 444,444 shares would have to be issued, and the maximum dilution of 1.4% is reached, is \$14.16.

The rights can only be exercised in the period commencing on the third anniversary of the issue date and terminating on the earlier of the rights holder ceasing full time employment or the date six years from issue date and then only if the market price of the Company's shares exceeds the adjusted base price at that time.

The rights holders are restricted from dealing with some of the shares issued under the Plan in the first two years after their issue.

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

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

# notes to the financial statements (continued)

	AVERAGE INTEREST RATE		G R O U P		P A R E N T	
	2002	2001	2002 \$000	2001 \$000	2002 \$000	2001 \$000
<b>7 TERM LIABILITIES</b>						
Loans secured by registered mortgages over specific properties and by debentures over assets and undertakings of group companies	5.7	6.1	28,467	13,595	-	-
Less current portion repayable within one year <sup>1</sup>			(2,000)	-	-	-
			<b>\$26,467</b>	\$13,595	-	-
Term liabilities fall due for repayment in the following periods:						
After one year but within two years			<b>\$26,467</b>	\$13,595	-	-

<sup>1</sup> Excludes \$5.7 million, which is subject to annual review, as it is anticipated that if required, the Group will be able to have this renewed for a further term at the next review date.

	G R O U P 2 0 0 2			G R O U P 2 0 0 1		
	COST OR VALUATION \$000	ACCUM. DEPN. \$000	BOOK VALUE \$000	COST OR VALUATION \$000	ACCUM. DEPN. \$000	BOOK VALUE \$000
<b>8 FIXED ASSETS</b>						
Freehold land						
Cost	4,163	-	4,163	4,257	-	4,257
Valuation	75	-	75	75	-	75
	<b>4,238</b>	-	<b>4,238</b>	4,332	-	4,332
Buildings						
Cost	14,884	1,916	12,968	14,642	1,722	12,920
Valuation	2,961	460	2,501	2,961	431	2,530
	<b>17,845</b>	<b>2,376</b>	<b>15,469</b>	17,603	2,153	15,450
Plant and equipment						
Cost	31,265	15,871	15,394	28,348	13,848	14,500
Valuation	4,707	4,707	-	4,707	4,707	-
	<b>35,972</b>	<b>20,578</b>	<b>15,394</b>	33,055	18,555	14,500
Other fixed assets						
Cost	11,014	5,720	5,294	10,368	5,400	4,968
Valuation	324	324	-	324	324	-
	<b>11,338</b>	<b>6,044</b>	<b>5,294</b>	10,692	5,724	4,968
	<b>\$69,393</b>	<b>\$28,998</b>	<b>\$40,395</b>	\$65,682	\$26,432	\$39,250

These assets are charged by registered mortgages and debentures as security for the Group's secured borrowings.

Other fixed assets consist of plant and equipment associated with the Microbial developmental project, motor vehicles, office equipment, computer equipment, fixtures and fittings, and tools.

The aggregate fair value of land and buildings, based on valuations conducted by independent registered valuers during the year, was \$21,188,000.

		P A R E N T	
		2002 \$000	2001 \$000
<b>9 INVESTMENTS</b>			
Shares in subsidiaries		<b>\$22,540</b>	\$22,540
		G R O U P	
		2002 \$000	2001 \$000
		P A R E N T	
		2002 \$000	2001 \$000
<b>10 DEVELOPMENT EXPENDITURE</b>			
Balance at beginning of the year	2,809	2,030	-
Development expenditure capitalised	916	779	-
Balance at end of the year	<b>\$3,725</b>	\$2,809	-
Capitalised development expenditure relates to the expenditure associated with the Microbial developmental project, a summary of which is set out in note 1 of the Notes to the Financial Statements.			
<b>11 TERM RECEIVABLES</b>			
Hire purchase debtors	1,793	4,129	-
Provision for unearned finance income	(73)	(237)	-
Provision for doubtful debts	(35)	(78)	-
Net hire purchase debtors	1,685	3,814	-
Less current portion repayable within one year	(1,572)	(2,542)	-
Term hire purchase debtors	\$113	\$1,272	-
Term hire purchase debtors fall due for repayment in the following periods:			
After one year but within two years	\$113	\$1,272	-
These assets are charged by debentures as security for the Group's secured borrowings.			
<b>12 DEFERRED TAX ASSET</b>			
Balance at beginning of the year	2,448	1,708	39
Deferred tax portion of income tax expense	(762)	740	(17)
Balance at end of the year	<b>\$1,686</b>	\$2,448	\$39
<b>13 CURRENT ASSETS</b>			
Cash at bank	2,857	2,834	2
Trade debtors	21,353	18,788	-
Other debtors and prepayments	2,818	4,121	-
Stocks - Raw materials	9,964	12,184	-
- Work-in-progress	1,335	1,072	-
- Finished goods	17,513	22,028	-
- Total	28,812	35,284	-
Income tax refund	1,795	799	-
Advances to subsidiaries	-	-	18,680
	<b>\$57,635</b>	\$61,826	\$28,006
These assets are charged by debentures as security for the Group's secured borrowings.			

# notes to the financial statements (continued)

	G R O U P		P A R E N T	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
<b>14 CURRENT LIABILITIES</b>				
Bank overdraft (secured)	949	1,596	-	-
Current portion of term liabilities (secured)	2,000	-	-	-
Short-term borrowings (unsecured)	6,055	1,432	-	-
Amount owing to shareholders	-	25,197	-	25,197
Employee entitlements	4,620	4,237	-	-
Trade creditors and accruals	8,152	8,896	110	158
Provisions	-	150	-	-
Provision for tax	-	-	254	201
Advances from subsidiaries	-	-	16,230	150
	<b>\$21,776</b>	<b>\$41,508</b>	<b>\$16,594</b>	<b>\$25,706</b>

The bank overdraft is secured by registered mortgages over specific properties and by debentures over assets and undertakings of group companies.

Provisions of \$150,000 were released to the Statement of Financial Performance during the year.

## 15 CASH FLOWS

Cash comprises cash at bank, bank overdraft, and short-term borrowings as follows:

Cash at bank	2,857	2,834	2	-
Bank overdraft	(949)	(1,596)	-	-
Short-term borrowings	(6,055)	(1,432)	-	-
Cash at end of the year	<b>\$(4,147)</b>	<b>\$(194)</b>	<b>\$2</b>	<b>-</b>

Investing activities comprise the purchase and sale of non-current assets used in the operations of the Group. All investing activities during the year were for cash.

Financing activities comprise the change in the equity and debt capital structure and the cost of servicing that equity capital. All financing activities during the year were for cash.

### THE OPERATING SURPLUS AFTER TAX CAN BE RECONCILED WITH THE NET CASH INFLOW FROM OPERATING ACTIVITIES AS FOLLOWS:

Operating surplus after tax as per the Statement of Financial Performance	13,534	10,995	10,552	8,528
Adjust for non-cash items:				
Depreciation	3,094	2,965	-	-
Diminution in value of fixed assets	-	60	-	-
Changes in provisions	(150)	-	-	-
Amortisation of goodwill	308	104	-	-
Fair value of share rights expensed	83	36	83	36
Movements in deferred tax	762	(740)	17	(1)
Net (gain)/loss on foreign currency balance	(12)	(43)	-	-
	<b>4,085</b>	<b>2,382</b>	<b>100</b>	<b>35</b>
Adjust for movements in term assets:				
Development expenditure	(916)	(779)	-	-
Term receivables	1,159	(1,060)	-	-
	<b>243</b>	<b>(1,839)</b>	<b>-</b>	<b>-</b>

	G R O U P		P A R E N T	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
<b>15 CASH FLOWS (CONTINUED)</b>				
Adjust for movements in working capital items:				
Trade debtors	(2,565)	179	-	-
Other debtors and prepayments	(1,847)	1,358	-	-
Stocks	6,472	25,817	-	-
Income tax refund/Provision for tax	(996)	1,327	53	193
Employee entitlements	383	-	-	-
Trade creditors and accruals	(744)	(1,800)	(48)	7
	<b>703</b>	<b>26,881</b>	<b>5</b>	<b>200</b>
Adjust for items classified as investing activities:				
Net (gain)/loss on sale of fixed assets	(38)	(902)	-	-
Net cash inflow from operating activities	<b>\$18,527</b>	<b>\$37,517</b>	<b>\$10,657</b>	<b>\$8,763</b>

	P A R E N T	
	2002 \$000	2001 \$000
<b>16 IMPUTATION CREDIT ACCOUNT</b>		
Balance at beginning of the year	5,557	6,903
Income tax paid/(refunded)	(17)	-
Imputation credits attached to dividends received	5,067	3,940
Imputation credits attached to dividends paid	(5,319)	(5,286)
Balance at end of the year	<b>\$5,288</b>	<b>\$5,557</b>
	G R O U P	
	2002 \$000	2001 \$000

The imputation credits that were available to shareholders of the Parent at 30 June 2002:

through the Parent	5,288	5,557
through subsidiaries	13,210	12,270
	<b>\$18,498</b>	<b>\$17,827</b>

**17 LEASE COMMITMENTS**

The Group's commitments in respect of operating lease agreements were:

Within one year	828	859
After one year but within two years	530	380
After two years but within five years	378	481
After five years	12	-

The Parent had no operating lease commitments at 30 June 2002 (2001 Nil).

Neither the Group nor the Parent had any finance lease commitments at 30 June 2002 (2001 Nil).

# notes to the financial statements (continued)

## 18 CAPITAL COMMITMENTS

The Group had commitments for capital expenditure at 30 June 2002 of \$58,000 (2001 \$1,240,000).

The Parent had no capital commitments at 30 June 2002 (2001 Nil).

	G R O U P		P A R E N T	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000
<b>19 CONTINGENT LIABILITIES</b>				
Trade bills discounted	-	4,839	-	-
Guarantee of subsidiary company obligations	-	-	<b>24,816</b>	10,887
	-	\$4,839	<b>\$24,816</b>	\$10,887
<b>20 RELATED PARTY TRANSACTIONS</b>				
The unsecured short-term borrowings as detailed in Note 14 is made up of borrowings from the following related parties:				
Chippendale Holdings Limited	<b>1,636</b>	140	-	-
Rural Aviation (1963) Limited	<b>4,311</b>	1,089	-	-
A M and A James	<b>108</b>	203	-	-
	<b>\$6,055</b>	\$1,432	-	-

These borrowings are repayable on demand. At balance date, the interest rate on these borrowings was 5.6% (2001 5.8%). This compares with an average interest rate, at balance date, of 5.7% (2001 6.1%) for the Group's other borrowings.

Chippendale Holdings Limited and Rural Aviation (1963) Limited are substantial security holders in the Company. Mr A M James is Managing Director of the Company.

**21 FINANCIAL REPORTING FOR SEGMENTS**  
**INDUSTRY SEGMENTAL INFORMATION**

	CARPET		WOOL (CONTINUING)		WOOL (DISCONTINUED)		CONSOLIDATION ADJUSTMENTS		CONSOLIDATED	
	2002 \$000	2001 \$000	2002 \$000	2001 \$000	2002 \$000	2001 \$000	2002 \$000	2001 \$000	2002 \$000	2001 \$000
<b>SEGMENT REVENUE</b>										
Revenue derived outside the Group	108,670	96,741	52,311	27,554	3,572	63,705	-	-	164,553	188,000
Inter-segment revenue	-	-	8,375	31,062	-	16,818	(8,375)	(47,880)	-	-
Interest received	234	227	-	-	-	553	-	-	234	780
Total revenue									\$164,787	\$188,780
<b>SEGMENT RESULTS</b>										
Operating surplus before corporate costs, interest, and income tax	19,918	19,812	3,668	3,805	6	(4,956)	248	79	23,840	18,740
Corporate costs									(1,432)	(1,474)
Net interest expense									(1,888)	(974)
Operating surplus before income tax									\$20,520	\$16,292
<b>SEGMENT ASSETS</b>										
Segment assets	84,460	82,370	16,015	14,307	1,248	10,372	-	-	101,723	107,049
Unallocated assets									4,219	3,252
Total assets									\$105,942	\$110,301
<b>OTHER SEGMENT INFORMATION</b>										
Depreciation	2,448	2,134	646	419	-	412	-	-	\$3,094	\$2,965
<b>EMPLOYEE NUMBERS</b>										
Operations	594	567	67	72	-	2	-	-	661	641
Unallocated									3	3
Total									664	644

The Group operates in two industry segments – carpet and wool. The carpet operation is involved with the manufacturing and sales of the Bremworth, Cavalier Bremworth, Knightsbridge, Kimberley, and Tramore brands of carpet. The wool operation (continuing) is involved with the procurement and processing of raw wool. The wool operation (discontinued) was involved with wool trading and the wool processing previously conducted out of the Auckland scour of E Lichtenstein and Company Limited. The scour was closed in November 2000, and the exit from wool trading was completed at 30 June 2001. All inter-segmental sales are at market prices. Inter-segmental sales during the year and intercompany profits on stocks at balance date are eliminated on consolidation.

**GEOGRAPHICAL SEGMENTAL INFORMATION**

Statement of standard accounting practice SSAP-23 treats the Group as having its operation within New Zealand and no geographical segmental information is therefore required.

# notes to the financial statements (continued)

## 22 FINANCIAL INSTRUMENTS

### MANAGEMENT POLICIES

It is the Group's policy to hedge foreign currency risks on trade-related transactions as they arise. However, this general policy may be varied from time to time, when circumstances dictate, so that existing currency risks are left unhedged or anticipated future currency risks are hedged.

The Group does not engage in speculative transactions or hold derivative financial instruments for trading purposes.

The Group's policy also requires that exposures to foreign currency risks are reported to and reviewed by the Board of Directors, monthly.

Interest rate risks are continually monitored having regard to the circumstances at any given time. When circumstances dictate, interest rate swaps, interest rate options, and forward rate agreements are entered into to hedge against fluctuations in interest rates.

### FAIR VALUE

The carrying amounts and estimated fair values of the Group's financial assets and liabilities at 30 June 2002 were as follows:

	G R O U P 2 0 0 2		G R O U P 2 0 0 1	
	CARRYING AMOUNT \$000	FAIR VALUE \$000	CARRYING AMOUNT \$000	FAIR VALUE \$000
Cash at bank	2,857	2,857	2,834	2,834
Trade debtors	21,353	21,353	18,788	18,788
Other debtors	2,818	2,818	4,121	4,121
Foreign currency forward exchange contracts	-	63	-	440
Foreign currency option agreements	-	334	-	(147)
Interest rate swaps	-	41	-	-
Term liabilities	(26,467)	(26,467)	(13,595)	(13,595)
Bank overdraft	(949)	(949)	(1,596)	(1,596)
Current portion of term liabilities	(2,000)	(2,000)	-	-
Short-term borrowings	(6,055)	(6,055)	(1,432)	(1,432)

The following methods and assumptions were used to estimate the fair value of each class of financial assets and liabilities:

### Cash at bank, trade debtors, other debtors, bank overdraft, and short-term borrowings

The carrying amounts of these items are equivalent to their fair values.

### Foreign currency forward exchange contracts and option agreements

The fair values of these instruments are estimated based on their quoted market prices at balance date.

### Term liabilities

The carrying amounts of the Group's term liabilities are equivalent to their fair values because these liabilities are at interest rates which approximate the interest rates currently available to the Group for debts of similar maturities.

### OFF BALANCE SHEET RISK

The Group has entered into foreign currency forward exchange contracts and foreign currency option agreements to manage its exposure to fluctuations in foreign currency exchange rates.

Whilst these financial instruments are subject to the risk that exchange rates may change subsequent to implementation, such changes would generally be offset by the equal and opposite effects on the balances being hedged.

**22 FINANCIAL INSTRUMENTS (CONTINUED)**

The notional principal or contract amounts outstanding at 30 June 2002 were as follows:

	<b>G R O U P</b>	
	<b>2002</b>	2001
	<b>\$000</b>	\$000
Foreign currency forward exchange contracts		
- NZD purchase commitments	<b>883</b>	8,227
- NZD sell commitments	-	-
NZD call option agreements purchased	<b>9,205</b>	30,086
NZD put option agreements sold	<b>18,411</b>	60,172
Interest rate swaps	<b>15,000</b>	-

**CREDIT RISK**

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

The Group places its surplus funds with trading banks approved by the Board of Directors as having the required credit rating and further minimises its credit exposure by limiting the amount placed with any one bank at any one time. Credit risk exposure with respect to debtors is limited by stringent credit controls, by the utilisation of irrevocable letters of credit and trade insurances wherever required, and by the large number of customers within the Group's customer base.

The Parent had no financial instruments at 30 June 2002 (2001 Nil), and all financial assets and liabilities at balance date were stated at fair value.

**23 FOREIGN CURRENCY DENOMINATED ASSETS AND LIABILITIES**

At 30 June 2002, the Group had the following foreign currency denominated monetary assets and monetary liabilities which were not hedged:

	<b>G R O U P 2 0 0 2</b>		<b>G R O U P 2 0 0 1</b>	
	<b>ASSETS</b>	<b>LIABILITIES</b>	ASSETS	LIABILITIES
	<b>\$000</b>	<b>\$000</b>	\$000	\$000
United States Dollars	<b>USD 140</b>	-	USD 40	USD 563
Hong Kong Dollars	<b>HKD 234</b>	-	-	-
Great British Pounds	-	-	GBP 67	-
Australian Dollars	-	-	-	AUD 109

The conversion rates at balance date for the USD and HKD assets were .4915 and 3.8337 respectively.

**24 EVENTS AFTER BALANCE DATE****DIVIDENDS**

The Directors declared, on 23 August 2002, a fully imputed final dividend of 17.5 cents per ordinary share on the 31,490,610 shares on issue to give a total final dividend of \$5,511,000.

## trend statement

	2002 \$000	2001 \$000	2000 \$000	1999 \$000	1998 \$000	1997 \$000	1996 \$000	1995 \$000
<b>FINANCIAL PERFORMANCE</b>								
Operating revenue	<b>\$164,787</b>	\$188,780	\$218,391	\$201,329	\$193,912	\$190,411	\$199,130	\$250,125
EBITDA and abnormal items	<b>25,810</b>	23,447	24,924	21,966	23,110	19,606	22,882	25,185
Abnormal items	<b>-</b>	(3,052)	-	-	-	-	-	-
EBITDA	<b>25,810</b>	20,395	24,924	21,966	23,110	19,606	22,882	25,185
Depreciation	<b>(3,094)</b>	(2,965)	(2,990)	(2,960)	(3,265)	(3,238)	(2,953)	(2,802)
Amortisation	<b>(308)</b>	(164)	(139)	(63)	(440)	(56)	(29)	-
EBIT	<b>22,408</b>	17,266	21,795	18,943	19,405	16,312	19,900	22,383
Net interest expense	<b>(1,888)</b>	(974)	(2,394)	(3,082)	(4,291)	(4,118)	(4,383)	(3,720)
Operating surplus before tax	<b>20,520</b>	16,292	19,401	15,861	15,114	12,194	15,517	18,663
Income tax expense	<b>(6,986)</b>	(5,297)	(6,304)	(5,269)	(5,063)	(4,125)	(5,249)	(6,262)
Operating surplus after tax	<b>13,534</b>	10,995	13,097	10,592	10,051	8,069	10,268	12,401
Minority interest	<b>(383)</b>	(746)	-	-	-	-	-	-
Net operating surplus attributable to shareholders of the Company	<b>13,151</b>	10,249	13,097	10,592	10,051	8,069	10,268	12,401
Ordinary dividends declared	<b>(10,864)</b>	(10,797)	(10,077)	(9,357)	(7,558)	(8,638)	(9,357)	(9,357)
Surplus after dividends	<b>\$2,287</b>	\$(548)	\$3,020	\$1,235	\$2,493	\$(569)	\$911	\$3,044
<b>FINANCIAL POSITION</b>								
Shareholders' equity <sup>1</sup>	<b>57,699</b>	55,198	80,095	77,075	75,840	73,347	73,916	73,005
Term liabilities	<b>26,467</b>	13,595	28,409	55,484	56,632	55,884	52,072	23,525
Current liabilities <sup>1</sup>	<b>21,776</b>	41,508	18,412	16,333	17,177	17,706	17,672	50,293
Shareholders' equity and total liabilities	<b>\$105,942</b>	\$110,301	\$126,916	\$148,892	\$149,649	\$146,937	\$143,660	\$146,823
Fixed assets	<b>40,395</b>	39,250	36,788	35,234	35,281	38,334	37,730	37,589
Goodwill	<b>2,388</b>	2,696	350	413	476	539	471	-
Development expenditure	<b>3,725</b>	2,809	2,030	1,397	875	361	-	-
Term receivables	<b>113</b>	1,272	212	987	-	2,971	881	611
Deferred tax asset	<b>1,686</b>	2,448	1,708	1,243	1,378	1,609	1,703	1,353
Non-current assets	<b>48,307</b>	48,475	41,088	39,274	38,010	43,814	40,785	39,553
Current assets	<b>57,635</b>	61,826	85,828	109,618	111,639	103,123	102,875	107,270
Total assets	<b>\$105,942</b>	\$110,301	\$126,916	\$148,892	\$149,649	\$146,937	\$143,660	\$146,823

<sup>1</sup> Pursuant to the new FRS-5 "Events After Balance Date", dividends proposed or declared after balance date, but before the financial statements are authorised for issue, must not be recognised as a liability at balance date. Consistent with this and to ensure comparability, all comparatives in the Trend Statement have been restated to reflect this change.

	2002	2001	2000	1999	1998	1997	1996	1995
<b>FINANCIAL RATIOS AND SUMMARY</b>								
<b>USE OF FUNDS AND RETURN ON INVESTMENT</b>								
Return on average shareholders' equity <sup>1</sup>	<b>24.0%</b>	13.7%	16.7%	13.9%	13.5%	11.0%	14.0%	17.3%
NOPAT : Total funds employed <sup>1</sup>	<b>16.4%</b>	12.4%	13.3%	9.4%	9.6%	8.3%	10.3%	12.0%
Basic earnings per ordinary share	<b>41.8c</b>	28.5c	36.4c	29.4c	27.9c	22.4c	28.5c	34.5c
<b>FINANCIAL STRUCTURE</b>								
Net tangible asset backing per ordinary share <sup>1</sup>	<b>\$1.61</b>	\$1.55	\$2.16	\$2.09	\$2.07	\$2.09	\$2.04	\$2.03
Proprietorship ratio <sup>1</sup>	<b>54.5%</b>	50.0%	63.1%	51.8%	50.7%	49.9%	51.5%	49.7%
Net interest-bearing debt : equity ratio <sup>1</sup>	<b>36:64</b>	20:80	28:72	42:58	44:56	44:56	43:57	41:59
Net interest cover (times)	<b>11.9</b>	17.7	9.1	6.1	4.5	4.0	4.5	6.1
<b>RETURNS TO SHAREHOLDERS</b>								
Dividends per ordinary share declared (excluding supplementary)	<b>34.5c</b>	30.0c	28.0c	26.0c	21.0c	24.0c	26.0c	26.0c
Dividend imputation	<b>100%</b>	100%	100%	100%	100%	100%	100%	100%
Ordinary dividend cover (times)	<b>1.2</b>	0.9	1.3	1.1	1.3	0.9	1.1	1.3
Supplementary dividends per ordinary share declared	<b>6.1c</b>	5.3c	5.0c	4.6c	3.7c	4.3c	4.6c	4.6c
<b>SHARE PRICE</b>								
June	<b>\$6.20</b>	\$5.45	\$3.38	\$3.49	\$2.28	\$2.42	\$2.40	\$3.05
52 week high	<b>\$6.40</b>	\$5.63	\$3.75	\$3.75	\$2.80	\$3.43	\$3.25	\$4.38
52 week low	<b>\$4.88</b>	\$3.20	\$3.07	\$2.15	\$1.86	\$2.31	\$2.30	\$2.70
<b>CAPITAL EXPENDITURE AND DEPRECIATION (\$000)</b>								
Capital expenditure	<b>\$4,674</b>	\$10,655	\$4,808	\$2,909	\$3,119	\$4,760	\$3,740	\$3,737
Depreciation	<b>\$3,094</b>	\$2,965	\$2,990	\$2,960	\$3,265	\$3,238	\$2,953	\$2,802

<sup>1</sup> Pursuant to the new FRS-5 "Events After Balance Date", dividends proposed or declared after balance date, but before the financial statements are authorised for issue, must not be recognised as a liability at balance date. Consistent with this and to ensure comparability, all comparatives in the Trend Statement have been restated to reflect this change.

# glossary of financial terms

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Earnings before interest, tax, depreciation, and amortisation (EBITDA)

Operating surplus before tax plus net interest expense, depreciation, and amortisation

Earnings before interest and tax (EBIT)

Operating surplus before tax plus net interest expense

Net operating profit after tax (NOPAT)

EBIT less theoretical tax on EBIT

Net assets

Total assets less total liabilities

Total funds employed

Shareholders' equity plus net interest-bearing liabilities, or  
Total assets less cash at bank less non interest-bearing liabilities

## USE OF FUNDS AND RETURN ON INVESTMENT

Return on average shareholders' equity

$$\frac{\text{Operating surplus after tax}}{\text{Average shareholders' equity}}$$

NOPAT : Total funds employed

$$\frac{\text{NOPAT}}{\text{Total funds employed}}$$

Basic earnings per ordinary share

$$\frac{\text{Net operating surplus attributable to shareholders of the Company}}{\text{Weighted average number of ordinary shares on issue during the year}}$$

## FINANCIAL STRUCTURE

Net tangible asset backing per ordinary share

$$\frac{\text{Net assets less goodwill, development expenditure, and minority interest}}{\text{Number of ordinary shares on issue at balance date}}$$

Proprietorship ratio

$$\frac{\text{Shareholders' equity}}{\text{Shareholders' equity and total liabilities}}$$

Net interest-bearing debt : equity ratio

$$\frac{\text{Interest-bearing debt less cash at bank}}{\text{Shareholders' equity}}$$

Net interest cover

$$\frac{\text{EBIT}}{\text{Net interest expense}}$$

## RETURNS TO SHAREHOLDERS

Ordinary dividend cover

$$\frac{\text{Net operating surplus attributable to shareholders of the Company}}{\text{Ordinary dividends declared}}$$

## other disclosures

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## disclosures under the companies act 1993

**FOR THE YEAR ENDED 30 JUNE 2002****DIRECTORS** (s211(1)(i))

The Directors of the Company as at 30 June 2002 were:

G C W Biel  
 W K Chung  
 R G Ebbett  
 G S Hawkins  
 A M James  
 A C Timpson

There were no changes in directors during the year.

**INTERESTS REGISTER** (s211(1)(e))

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

**USE OF COMPANY INFORMATION** (s145)

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

**SHARE DEALING** (s148)

During the year, no notices were received from the Directors in relation to share dealings.

Directors' relevant interests in shares in the Company at 30 June 2002 were:

G C W Biel	
Beneficial	1,058,448
Other	3,679,973
W K Chung	
Beneficial	2,542
Other	–
R G Ebbett	
Beneficial	12,073
Other	–
G S Hawkins	
Beneficial	2,625
Other	–
A M James	
Beneficial	30,625
Other	–
A C Timpson	
Beneficial	394,782
Other	–

**FOR THE YEAR ENDED 30 JUNE 2002****REMUNERATION** (s161)

The Board authorised an increase in the base remuneration of W K Chung by \$6,000 per annum with effect from 1 July 2001.

The Board also authorised the issue of 300,000 rights under the Cavalier Corporation Limited 2000 Executive Share Rights Plan ("Plan") to the two executive Directors of the Company, A M James and W K Chung. 190,000 rights were issued to A M James and 110,000 rights were issued to W K Chung. The entitlements of A M James and W K Chung under the Plan will be determined on the exercise date by multiplying the difference between the market price of the Company's shares and the adjusted base price at exercise date by the number of rights exercised at that date. These rewards are then divided by the market price of the Company's shares at exercise date to give the number of shares to be issued to them, subject to a maximum of one share for every 1.8 rights exercised. A summary of the terms of the Plan is set out on pages 12 and 13 of this document (note 6 of the Notes to the Financial Statements).

**INDEMNITY AND INSURANCE** (s162)

During the year, the Company effected directors' and officers' liability insurance to cover, to the extent normally covered by such policies, the risks arising out of the acts or omissions of the Directors and employees of the Company and its subsidiaries in their capacity as such. The cost of this cover was approximately \$9,600.

**SPECIFIC DISCLOSURES OF INTEREST** (s140(1))

No specific disclosures of interest were received during the year.

**GENERAL DISCLOSURES OF INTEREST** (s140(2))

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

G C W Biel	Director of: Heli Harvest Limited Rural Aviation (1963) Limited
W K Chung	None
R G Ebbett	Director of: Acma Capital (N.Z.) Limited Anglesea Properties Limited Ebbett Waikato Group Limited Horticom Limited Renaissance Corporation Limited TBS Corporation Limited
G S Hawkins	Director of: Ballance Agri-Nutrients Co-operative Limited Fonterra Co-operative Group Limited Hawkins Consulting Services Limited Horizon Energy Distribution Limited Robinson Industries Limited (Chairman) Stableburn Farms Limited
A M James	None
A C Timpson	Director of: Astrograss Allweather Surfaces Limited Chippendale Holdings Limited Marama Trading Limited Pauanui Publishing Limited Radford Yarn Technology Limited

disclosures under the **companies act 1993** (continued)**FOR THE YEAR ENDED 30 JUNE 2002****DIRECTORS' REMUNERATION** (s211(1)(f))

The total remuneration and value of other benefits earned (received, and due and receivable) by each of the Directors of the Company for the year ended 30 June 2002 were:

G C W Biel	\$26,000
W K Chung	\$326,000
R G Ebbett	\$26,000
G S Hawkins	\$26,000
A M James	\$487,000
A C Timpson	\$46,000

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

The number of employees of the Company and its subsidiaries (excluding employees holding office as directors of the Company, but including other employees holding office as directors of subsidiaries) whose remuneration and value of other benefits for the year ended 30 June 2002 fall into the various brackets specified by the Companies Act 1993 is as follows:

REMUNERATION AND VALUE OF OTHER BENEFITS (\$)	NUMBER OF EMPLOYEES
100,000 – 109,999	1
110,000 – 119,999	1
120,000 – 129,999	3
130,000 – 139,999	1
140,000 – 149,999	1
150,000 – 159,999	5
160,000 – 169,999	2
170,000 – 179,999	–
180,000 – 189,999	–
190,000 – 199,999	–
200,000 – 209,999	1
210,000 – 219,999	–
220,000 – 229,999	1
230,000 – 239,999	2
240,000 – 249,999	–
250,000 – 259,999	1
350,000 – 359,999	1
Total number of employees	20

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

Refer to page 11 of this document (note 3 of the Notes to the Financial Statements).

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

Refer to page 11 of this document (note 3 of the Notes to the Financial Statements).

**FOR THE YEAR ENDED 30 JUNE 2002****SUBSIDIARY COMPANY DIRECTORS** (s211(2))

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

SUBSIDIARIES	DIRECTORS
Cavalier Bremworth Limited and Cavalier Spinners Limited	G C W Biel W K Chung A M James A C Timpson
Cavalier Bremworth (Australia) Limited and Kimberley Carpets Pty. Limited	G C W Biel W K Chung D M Cotton A M James A C Timpson
Cavalier Bremworth (North America) Limited and Northern Prospecting Limited	G C W Biel W K Chung A C Timpson
Knightsbridge Carpets Limited	W K Chung A M James A C Timpson
E Lichtenstein and Company Limited, Elco Direct Limited, Elcopac Limited, Elcotex Limited, Elcowool Limited, e-Wool Limited, and Heron Distributors Limited	A M James A C Timpson W K Chung
Hawkes Bay Woolscourers Limited	G C W Biel D M Ferrier A M James W K Chung (alternate of G C W Biel)
Microbial Technologies Limited	W K Chung D J Cooper A M James D E Pinnock V T S Tan A C Timpson

There were no retirements or resignations of subsidiary company directors during the year.

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

The details of entries in the interests register and the remuneration and value of other benefits of subsidiary company directors who are also the Directors of the Company are set out on pages 26 to 28 of this document.

There were no entries in the interests register in respect of any of the subsidiary company directors who are not also the Directors of the Company. The remuneration and value of other benefits of these directors is disclosed under employee remuneration on page 28 of this document.

disclosures under the new zealand **stock exchange** listing rules**AS AT 30 AUGUST 2002****ANALYSIS OF SHAREHOLDINGS** (Listing Rule 10.5.1)

	NUMBER OF SHAREHOLDERS	%	SHARES HELD	%
<b>SIZE OF SHAREHOLDINGS</b>				
Up to 199	172	3.0	16,742	0.1
200 – 499	412	7.1	148,425	0.5
500 – 999	1,049	18.2	817,468	2.6
1,000 – 1,999	1,385	24.0	2,030,806	6.4
2,000 – 4,999	1,620	28.1	5,123,536	16.3
5,000 – 9,999	693	12.0	4,764,508	15.1
10,000 – 49,999	406	7.0	7,039,966	22.4
50,000 – 99,999	20	0.4	1,334,897	4.2
Over 99,999	10	0.2	10,214,262	32.4
	5,767	100.0	31,490,610	100.0
<b>LOCATION OF SHAREHOLDERS</b>				
New Zealand	5,674	98.4	31,242,858	99.2
Overseas – Australia	54	0.9	101,701	0.3
– Others	39	0.7	146,051	0.5
	5,767	100.0	31,490,610	100.0
<b>TOP 20 SHAREHOLDERS</b>				
Chippendale Holdings Limited			3,938,645	12.5
Rural Aviation (1963) Limited			3,729,164	11.8
Westburn Investments Limited			1,009,257	3.2
New Zealand Central Securities Depository Limited			664,521	2.1
Peter Hanbury Masfen and Joanna Alison Masfen			393,750	1.3
Forbar Custodians Limited			289,785	0.9
Mary Dorcas Spackman			115,937	0.4
J & D Sands Limited			110,000	0.3
Herbert Charles Wilson			102,000	0.3
Solwin Investments Limited			96,250	0.3
Nicolaas Johannes Kaptein			90,000	0.3
Chi-Ping Lui			87,500	0.3
Owen Thomas Goold Wright and David Raymond Simpson			87,500	0.3
Ann Martin McLean			75,500	0.2
Estate Gabriel David Tetro Deceased			70,141	0.2
William Edward Cron			69,503	0.2
Edward George Hunt			69,080	0.2
Estate Raymond Forbes Wilson Deceased			63,504	0.2
Roland Fraser Stead			63,000	0.2
James Ainsworth Horrocks and Suzanne Eileen Horrocks and David Stewart Kingston			60,000	0.2
			11,185,037	35.5

**AS AT 30 AUGUST 2002****NEW ZEALAND CENTRAL SECURITIES DEPOSITORY LIMITED**

New Zealand Central Securities Depository Limited provides a custodial depository service to offshore and institutional shareholders and does not have a beneficial interest in the shares registered in its name. The beneficial owners of the shares registered in its name as at 30 August 2002 were:

	SHARES HELD	%
Guardian Trust Investment Nominees (RWT) Limited	399,776	1.3
Citibank Nominees (New Zealand) Limited	125,948	0.4
TEA Custodians Limited – The NZ Mid Cap Index Fund	78,035	0.2
The NZ Guardian Trust Co. Limited – Guardian Trust Investment Limited	56,818	0.2
Portfolio Nominees Limited	3,937	–
National Nominees New Zealand Limited	4	–
ANZ Nominees Limited	3	–
	<u>664,521</u>	<u>2.1</u>

**DIRECTORS' AND ASSOCIATED PERSONS' SHAREHOLDINGS**

	<b>30 JUNE 2002</b>	
	BENEFICIAL	NON-BENEFICIAL
Shares		
G C W Biel	1,058,448	3,709,284 <sup>1</sup>
W K Chung	2,542	–
R G Ebbett	12,073	–
G S Hawkins	2,625	–
A M James	30,625	–
A C Timpson	394,782	4,599,650 <sup>2</sup>
Rights under the Cavalier Corporation Limited 2000 Executive Share Rights Plan <sup>3</sup>		
W K Chung	360,000	–
A M James	620,000	–

<sup>1</sup> Includes 29,311 held by associated persons.

<sup>2</sup> All held by associated persons.

<sup>3</sup> A summary of the terms of the Plan is set out on pages 12 and 13 of this document (note 6 of the Notes to the Financial Statements).

**WAIVERS FROM THE NEW ZEALAND STOCK EXCHANGE**

The Company has been granted a waiver from complying with Listing Rule 9.2.2 (d) by virtue of the exception set out in Listing Rule 9.2.4 (c).

## disclosures under the securities amendment act 1988

AS AT 30 AUGUST 2002

**SUBSTANTIAL SECURITY HOLDERS** (s26)

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

	NUMBER OF VOTING SECURITIES WHERE RELEVANT INTEREST EXISTS
G C W Biel	5,017,373
Chippendale Holdings Limited	5,162,814
Rural Aviation (1963) Limited	4,997,362
Tony Timpson Family Trust	5,162,814
Westburn Investments Limited	1,697,763

The total number of issued voting securities for the purposes of the Securities Amendment Act 1988 was 31,490,610.

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

## corporate directory

**BOARD OF DIRECTORS:**

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

Deputy Chairman of Board  
Member of Audit Committee  
Member of Remuneration Committee

W K Chung B.Com., CA, CMA

Finance Director

R G Ebbett B.Com., ACA, FInstD

Non-executive Director  
Chairman of Audit Committee  
Member of Remuneration Committee

G S Hawkins B.Sc., B.Com., ACA

Non-executive Director  
Member of Audit Committee  
Member of Remuneration Committee

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

Managing Director

A C Timpson

Chairman of Board  
Member of Audit Committee  
Chairman of Remuneration Committee**COMPANY SECRETARY:**

V T S Tan

**REGISTERED OFFICE:**7 Grayson Avenue, Papatoetoe,  
PO Box 97-040, Auckland 1730.  
Telephone: 64-9-277 6000, Facsimile: 64-9-279 4756.**SHARE REGISTRAR:**Computershare Investor Services Limited  
Level 2, 159 Hurstmere Road, Takapuna, North Shore City,  
Private Bag 92119, Auckland 1020.  
Telephone: 64-9-488 8700, Facsimile: 64-9-488 8787, Investor Enquiries: 64-9-488 8777.**AUDITORS:**

KPMG

**LEGAL ADVISORS:**Martelli McKegg Wells and Cormack  
Minter Ellison Rudd Watts  
Russell McVeagh**BANKERS:**

ANZ Banking Group (New Zealand) Limited

**WEB SITES:**Corporate – [www.cavcorp.co.nz](http://www.cavcorp.co.nz)  
Carpet Operation – [www.cavbrem.co.nz](http://www.cavbrem.co.nz), [www.cavbrem.com.au](http://www.cavbrem.com.au)**NZSE**  
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