

CAVALIER CORPORATION LIMITED

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NZ.

HABITAT
COLLECTION



HALF YEAR REPORT
FOR THE SIX MONTHS ENDED
31 DECEMBER 2014

CAVALIER
CORPORATION

VALUES

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

VISION

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

MISSION

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

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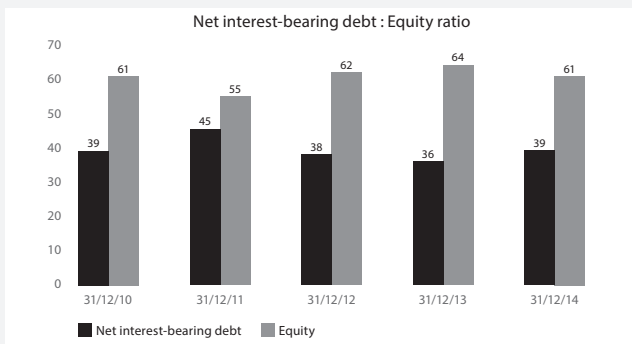
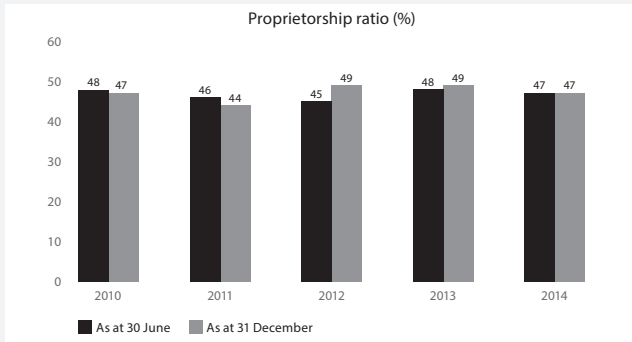
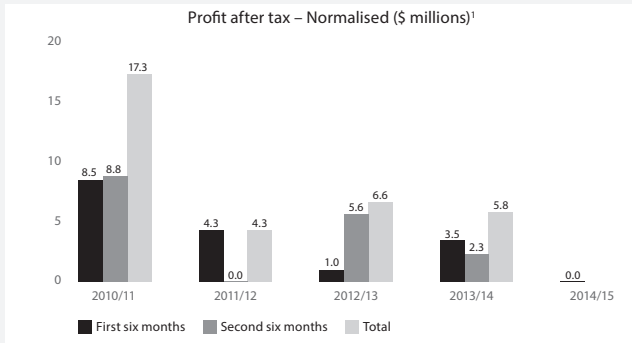
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FINANCIAL SUMMARY

For the six months ended 31 December 2014 (Unaudited)

	Unaudited Six months ended 31 Dec 2014 \$000	Unaudited Six months ended 31 Dec 2013 \$000	Audited Year ended 30 June 2014 \$000
Operating revenue	\$103,722	\$101,895	\$200,642
Earnings before interest, tax and depreciation	5,113	8,591	14,609
Depreciation	(2,932)	(3,178)	(5,849)
Earnings before interest and tax	2,181	5,413	8,760
Net interest expense	(1,919)	(1,733)	(3,484)
Share of profit of equity-accounted investee (net of tax)	(157)	792	2,044
Profit before tax	105	4,472	7,320
Tax expense	(73)	(1,025)	(1,530)
Profit after tax	\$32	\$3,447	\$5,790
Net cash flow from operating activities	\$12	\$3,501	\$615
Basic and diluted earnings per share (cents) – based on weighted average number of shares outstanding during the period of 68,679,098 (31 December 2013 – 68,347,935; 30 June 2014 – 68,462,919)	–	5.0	8.5
Return on average shareholders' equity (%)	–	3.7%	6.2%
Dividends paid per share (cents)			
Previous year's final	–	4.0	4.0
Current year's interim	–	–	3.0
	Unaudited As at 31 Dec 2014	Unaudited As at 31 Dec 2013	Audited As at 30 June 2014
Net tangible asset backing per share (\$)	\$1.22	\$1.26	\$1.24
Proprietorship ratio (%)	47.1%	49.0%	46.9%
Net interest-bearing debt to equity ratio	39:61	36:64	39:61

FINANCIAL SUMMARY (continued)



¹ Normalised is a non-GAAP (Generally Accepted Accounting Practice) measure that provides what the Directors believe to be a more meaningful view of the underlying financial performance of the Group. A reconciliation between reported and normalised earnings together with further commentary on the disclosure of non-GAAP financial information are set out at page 23 of the half year report.

DIRECTORS' REPORT

For the six months ended 31 December 2014

The Directors of Cavalier Corporation present their report, including financial statements, for the period to 31 December 2014.

FINANCIAL PERFORMANCE

For the six months ended 31 December 2014, the unaudited group profit after tax is \$32,000 and represents a \$3.4 million reduction on the same period last year. The earnings decrease reflects the tough trading conditions encountered by most business units within the Group.

The gains made from restructuring the manufacturing operations by closing spinning and consolidating tufting plants over the recent past have been dwarfed by the impact of the high New Zealand dollar, increased wool prices and very low wool grease prices.

While these adverse macro events are beyond the Company's control, the Board and executive are focused on what it can impact and control. This includes simplifying our operations and reducing costs, growing our rest of world (ROW) markets through global partnerships particularly in the US where we are partnering with Mohawk, the world's largest flooring company, migrating Ontera to a blended tile-distribution model, leveraging the innovative felted yarn technology and merging wool scouring in New Zealand.

Operating revenue at \$103.7 million is up 1.8% on the \$101.9 million reported last year, with most of this increase coming from the carpet business, where operating revenue increased by \$1.8 million to \$88.8 million.

More detail about the results for the Group divisions is contained in Segment Reviews.

Australian revenue is up 5.7% on last year and accounts for 53.9% of total revenue. New Zealand-based revenue is down 2.2% on last year and represents 42.8% of total revenue. While our ROW business currently only contributes 3.3% to total revenue, our strategy to develop our ROW markets and further align with our global channel partners is expected to deliver increased sales and profit growth in the near-to-medium term.

We are expecting a lift in second half results as the ongoing implementation of our business improvement plan begins to lift profits.

FINANCIAL POSITION

Total equity as at 31 December 2014 stood at \$91.9 million, compared with \$93.0 million last June and represents 47.1% of total assets compared with 46.9% in June 2014.

Total group assets, including intangibles, were \$195.2 million at the half year, down 1.5% or \$2.9 million on that reported in June 2014.

Net debt at \$59.1 million is in line with the June 2014 balance of \$58.8 million.

Our debt to equity ratio as at 31 December 2014 was 39:61, unchanged on that six months ago.

The Board and executive acknowledge, given the decline in earnings, that debt level is too high and have introduced a debt reduction programme that would see bank debt reduce to more acceptable levels.

DIRECTORS' REPORT (continued)

CASH FLOWS

Net cash flows from operating activities were \$12,000 for the six months, down on the \$3.5 million in the previous comparable period due to the reduction in operating profits.

During the first six months there was a \$1.7 million outflow for capital expenditure and \$1.3 million dividend received from our equity-accounted investee, Cavalier Wool Holdings.

SEGMENT REVIEWS

Carpet Business

The carpet business includes carpet tiles, made in Australia, and broadloom carpets, manufactured in New Zealand. Australasia remains by far the largest market for the segment.

In the six month period to 31 December 2014, our carpet business produced a segment result of \$2.2 million, a drop of \$3.3 million on the \$5.5 million the previous year.

Total revenue at \$88.8 million is up \$1.8 million on the \$87.0 million generated last year.

Broadloom

We have implemented a strategy to grow our ROW broadloom sales and, while at an early stage, growth prospects are encouraging for the near-to-medium term.

Our global partnership with Mohawk has got off to a good start. Our wool products are already in US stores and early indications are positive. While US sales will provide some impetus to the 2014/15 result, the full impact of rolling out our product across the 500 Mohawk customer-stores will not emerge until 2015/16.

As part of this global partnership, we are also selling Mohawk broadloom carpet and have secured exclusive distribution rights to Mohawk tiles in Australia.

While our new channel partners in Canada, the UK and Europe are unlikely to materially affect results in 2014/15, they will deliver both revenue and profit growth in the future.

In broadloom carpets, total revenue and volumes are up on the same period last year. However, profits are down due mainly to reduced margins caused by higher wool prices and the strong NZD:AUD exchange rate. Sales volumes of Cavalier Bremworth products are up 22%, partially offset by Norman Ellison Carpets' 8% drop as it continues to struggle in the very competitive price-driven section of the market.

As noted above, we have targeted growth in ROW markets and further volume growth is anticipated from the introduction of additional products under the Habitat Collection range – Cavalier's high-end synthetic offering – and other focused products with selected retailer groups.

We have also targeted areas where we can achieve cost reductions and are confident these measures will deliver benefits to the overall result in time.

Tiles

Our carpet tile operation, Ontera Modular Carpets, is having a poor year, making a loss for the first six months and having the largest variation in profitability from last year. Average selling prices have been falling, costs have been increasing and Ontera has a product range that is largely confined to the shrinking upper end of the market. It has also been forced to compete with cheaper, mostly imported, graphically tufted alternatives.

Most of these changes have been driven by the strength of the AUD, which rose from \$0.80 to \$1.04 against the USD over the period from 2010 to 2013. With the AUD now having declined sharply, we may be able to look forward to some relief in the form of upward pressure on prices in the marketplace.

Ontera has embarked on a blended supply model, supplementing sales of own manufactured premium-end tiles with imported products in segments of the market it has not been able to successfully compete in recently – in the process giving Ontera a much broader product offering and market reach. The bulk of these products will commence selling in the last quarter of the financial year and manufacturing will be sized according to requirements.

Wool Business

Wool scouring and wool buying are the operations within our wool business.

Cavalier owns 50% of the wool scour, Cavalier Wool Holdings Limited (CWH), and for the six months, Cavalier's share of tax-paid earnings is a loss of \$157,000 compared with a profit of \$792,000 for the same period last year. This loss in the first six months was expected as a result of very low wool grease prices compared to last year.

It is pleasing to note that wool grease prices appear to have reached the bottom of the current cycle and have recently started to lift.

During the year, we announced that an agreement to merge CWH with the scouring operations of New Zealand Wool Services International (the only other woollscourer in New Zealand) had been reached. This agreement is still subject to Commerce Commission approval and a draft determination is expected to be received shortly. We are confident that the merger will be approved and the synergies created from taking out excess capacity in the industry will increase scour efficiency.

Elco Direct, Cavalier's wool buying business, had revenue of \$16.8 million which was down 4.5% on the \$17.6 million reported last year. The segment result at \$351,000 for the six months is down \$207,000 on the \$558,000 reported in the same period last year, with the decrease caused by reduced volume and margin.

DIRECTORS' REPORT (continued)

Yarn Business

The Radford Yarn Technologies (RYT) operation is a supplier of premium felted woollen yarns to the Cavalier Bremworth broadloom carpet operation and to up-market broadloom carpet and rug manufacturers in North America and Europe. It is one of only two felted yarn producers in the world. Production has doubled during the past 12 months to meet internal requirements and international demand.

While RYT profit to sales margins have dropped, this is due entirely to the decision made at the start of the financial year to price products sold within the Group at manufactured cost. As a result, although volume has increased, profitability has dropped and gains will be recognised further down the value chain on sale of finished product.

RYT volume of yarn sales into Europe is set to increase with the securing of a supply agreement with a large European manufacturer. As a result, the Company has invested in extra felting capacity at its Wanganui spinning plant.

EARNINGS OUTLOOK

We are expecting a lift in second half results due to the ongoing implementation of our strategy to turn around the business. Therefore, the earnings outlook for the Group for the 2014/15 financial year remains unchanged from the \$1 to \$4 million normalised profit after tax range presented to shareholders at the Annual Meeting.

In arriving at this outlook, we anticipate further volume increases in the broadloom business, including offshore growth, introduction of new ranges under the Habitat Collection and new business in New Zealand and Australia. There has also been recent price increases in some products in Australia which will help returns that are being adversely affected by the strong New Zealand dollar.

Ontera's tile import programme is in place, with product ready for sale and reasonable volumes anticipated in the last quarter of the financial year. While this is more of a 2015/16 story, we will see some profits from the incremental sales in the remainder of this financial year.

With wool grease prices lifting and increased volumes through the scour, second half earnings from the scour should be an improvement on the first.

The high wool price looks to have settled at a level much higher than historical averages and with approximately 50% of our products predominately wool based, this will continue to depress results.

The New Zealand dollar is now at its highest level against the Australian dollar since the currency was floated in 1985. This makes it increasingly difficult for New Zealand-based manufacturers to profitably export to Australia.

The Board and executive are acutely aware that current profitability is unacceptable but remain confident their strategies are appropriate and will return the Company to acceptable profitability in time.

DIVIDENDS

The results in the first half of the year do not support the payment of a dividend and the Directors are therefore not recommending an interim dividend payment.

With the full year forecast as it currently stands, it is also unlikely that a final dividend will be paid for 2014/15.

Company profitability needs to lift and the financial position has to improve before dividend payments can resume.

The Board will revisit its decision to suspend dividend payments at the appropriate time.



A M James

Chairman

20 February 2015



C A McKenzie

Managing Director

INDEPENDENT REVIEW REPORT



TO THE SHAREHOLDERS OF CAVALIER CORPORATION LIMITED

We have completed a review of the condensed consolidated interim financial statements of Cavalier Corporation Limited and its subsidiaries ("the Group") on pages 9 to 22 which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the six months ended on that date, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITIES

The Directors of Cavalier Corporation Limited are responsible for the preparation and fair presentation of the condensed consolidated interim financial statements in accordance with NZ IAS 34 *Interim Financial Reporting* and for such internal control as the Directors determine is necessary to enable the preparation and fair presentation of the condensed consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

OUR RESPONSIBILITIES

Our responsibility is to express a conclusion on the condensed consolidated interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity*. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with NZ IAS 34 *Interim Financial Reporting*. As the auditor of the Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on these financial statements.

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that these condensed consolidated interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and cash flows for the six months ended on that date, in accordance with NZ IAS 34 *Interim Financial Reporting*.

20 February 2015, Auckland

CONDENSED CONSOLIDATED INCOME STATEMENT

Six months ended 31 December 2014 (Unaudited)

	Notes	Unaudited Six months ended 31 Dec 2014 \$000	Unaudited Six months ended 31 Dec 2013 \$000
Revenue	3	103,722	101,895
Cost of sales		(78,988)	(73,106)
Gross profit		24,734	28,789
Other income and gains/losses	4	(2)	38
Distribution expenses		(18,218)	(16,880)
Administration expenses		(4,333)	(6,534)
Results from operating activities		2,181	5,413
Net finance costs		(1,919)	(1,733)
Share of profit of equity-accounted investee (net of tax)		(157)	792
Profit before tax	5	105	4,472
Tax expense		(73)	(1,025)
Profit after tax for the period		\$32	\$3,447
Profit after tax attributable to:			
Shareholders of Cavalier Corporation Limited		32	3,447
Non-controlling interests		-	-
Profit after tax for the period		\$32	\$3,447
Basic and diluted earnings per share (cents)		-	5.0
Weighted average number of shares outstanding during the period (000s)		68,679	68,348

This statement is to be read in conjunction with the Notes on pages 15 to 22 and the previous year's annual financial statements

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 31 December 2014 (Unaudited)

	Unaudited Six months ended 31 Dec 2014 \$000	Unaudited Six months ended 31 Dec 2013 \$000
Profit after tax for the period	32	3,447
Other comprehensive income that may be reclassified subsequently to profit or loss		
Effective portion of changes in fair value of cash flow hedges	473	1,927
Net change in fair value of cash flow hedges transferred to profit or loss	(1,097)	(331)
Foreign currency translation differences for foreign operations	(665)	(2,436)
Tax on other comprehensive income	172	(447)
	(1,117)	(1,287)
Other comprehensive income not reclassified subsequently to profit or loss		
Changes in amounts payable to non-controlling interests	-	52
Other comprehensive income for the period, net of tax	(1,117)	(1,235)
Total comprehensive income for the period	\$(1,085)	\$2,212
Total comprehensive income attributable to:		
Shareholders of Cavalier Corporation Limited	(1,085)	2,212
Non-controlling interests	-	-
Total comprehensive income for the period	\$(1,085)	\$2,212

This statement is to be read in conjunction with the Notes on pages 15 to 22 and the previous year's annual financial statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 31 December 2014 (Unaudited)

	Share Capital \$000	Cash Flow Hedging Reserve \$000	Foreign Currency Translation Reserve \$000	Share Rights Reserve \$000	Retained Earnings \$000	Total Equity \$000
Total equity at beginning of the period	\$21,846	\$942	\$(2,364)	\$1,448	\$71,087	\$92,959
Total comprehensive income for the period						
Profit after tax	-	-	-	-	32	32
Other comprehensive income that may be reclassified subsequently to profit or loss						
Changes in fair value of cash flow hedges (net of tax)	-	(452)	-	-	-	(452)
Foreign currency translation differences for foreign operations	-	-	(665)	-	-	(665)
	-	(452)	(665)	-	-	(1,117)
Other comprehensive income not reclassified subsequently to profit or loss	-	-	-	-	-	-
Total other comprehensive income	-	(452)	(665)	-	-	(1,117)
Total comprehensive income for the period	-	(452)	(665)	-	32	(1,085)
Transactions with owners, recorded directly in equity	-	-	-	-	-	-
Total equity at end of the period	\$21,846	\$490	\$(3,029)	\$1,448	\$71,119	\$91,874

This statement is to be read in conjunction with the Notes on pages 15 to 22 and the previous year's annual financial statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Six months ended 31 December 2013 (Unaudited)

	Share Capital \$000	Cash Flow Hedging Reserve \$000	Foreign Currency Translation Reserve \$000	Share Rights Reserve \$000	Retained Earnings \$000	Total Equity \$000
Total equity at beginning of the period	\$21,157	\$994	\$369	\$1,448	\$69,950	\$93,918
Total comprehensive income for the period						
Profit after tax	–	–	–	–	3,447	3,447
Other comprehensive income that may be reclassified subsequently to profit or loss						
Changes in fair value of cash flow hedges (net of tax)	–	1,149	–	–	–	1,149
Foreign currency translation differences for foreign operations	–	–	(2,436)	–	–	(2,436)
	–	1,149	(2,436)	–	–	(1,287)
Other comprehensive income not reclassified subsequently to profit or loss						
Changes in amounts payable to non-controlling interests	–	–	–	–	52	52
Total other comprehensive income	–	1,149	(2,436)	–	52	(1,235)
Total comprehensive income for the period	–	1,149	(2,436)	–	3,499	2,212
Transactions with owners, recorded directly in equity						
Dividends paid to equity holders of the Company	–	–	–	–	(2,731)	(2,731)
Issue of ordinary shares	361	–	–	–	–	361
Total equity at end of the period	\$21,518	\$2,143	\$(2,067)	\$1,448	\$70,718	\$93,760

This statement is to be read in conjunction with the Notes on pages 15 to 22 and the previous year's annual financial statements

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	Unaudited 31 Dec 2014 \$000	Audited 30 June 2014 \$000
ASSETS			
Property, plant and equipment		62,289	63,900
Intangible assets		7,794	7,794
Investment in equity-accounted investee		24,493	25,900
Deferred tax asset		3,881	3,107
Total non-current assets		98,457	100,701
Cash and cash equivalents		2,524	2,375
Trade receivables, other receivables and prepayments		24,884	25,910
Inventories		67,177	66,847
Derivative financial instruments		2,110	2,227
Total current assets		96,695	97,359
Total assets		\$195,152	\$198,060
EQUITY			
Share capital		21,846	21,846
Cash flow hedging reserve		490	942
Foreign currency translation reserve		(3,029)	(2,364)
Share rights reserve		1,448	1,448
Retained earnings		71,119	71,087
Total equity attributable to equity holders of the Company		91,874	92,959
LIABILITIES			
Loans and borrowings	7	61,569	61,220
Employee benefits		2,121	2,244
Deferred income		184	218
Provisions		3,540	3,901
Total non-current liabilities		67,414	67,583
Trade creditors and accruals		26,688	27,258
Provisions		1,729	1,772
Employee entitlements		5,170	6,092
Amount payable to non-controlling interests		65	65
Deferred income		67	67
Derivative financial instruments		508	639
Tax payable		1,637	1,625
Total current liabilities		35,864	37,518
Total liabilities		103,278	105,101
Total equity and liabilities		\$195,152	\$198,060

This statement is to be read in conjunction with the Notes on pages 15 to 22 and the previous year's annual financial statements

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 31 December 2014 (Unaudited)

Notes	Unaudited Six months ended 31 Dec 2014 \$000	Unaudited Six months ended 31 Dec 2013 \$000
CASH FLOWS FROM OPERATING ACTIVITIES		
	103,361	104,001
	(100,853)	(98,036)
	2,508	5,965
	2	3
	12	11
	(70)	(610)
	(1,705)	(2,026)
	(735)	158
Net cash flow from operating activities	12	3,501
CASH FLOWS FROM INVESTING ACTIVITIES		
	127	54
	(1,713)	(947)
	-	(13)
	1,250	-
Net cash flow from investing activities	(336)	(906)
CASH FLOWS FROM FINANCING ACTIVITIES		
	538	(2,440)
	-	(5)
	-	(2,731)
	-	361
Net cash flow from financing activities	538	(4,815)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		
	214	(2,220)
	2,375	5,698
	(65)	(233)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		
	\$2,524	\$3,245

This statement is to be read in conjunction with the Notes on pages 15 to 22 and the previous year's annual financial statements

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 31 December 2014

1. GENERAL

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

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

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

All subsidiaries in the Group are wholly-owned except for the Ontera Modular Carpets Proprietary Limited group of companies ("Ontera") which is 97% owned.

Because of the need to recognise put options granted to the non-controlling interests in respect of their shareholding in Ontera as financial liabilities in the Statement of Financial Position, the shareholding of the non-controlling interests has been similarly derecognised in the financial statements and their interests accounted for as if the Group owned a 100% of Ontera.

Cavalier also has a 50% interest in the Cavalier Wool Holdings Limited group of companies ("CWH"). CWH is involved in commission wool scouring.

The Company is listed on the New Zealand Exchange and is required to comply with the provisions of the NZX Main Board Listing Rules which require it to present half-yearly reports incorporating, amongst other things, the interim financial statements covering the Group.

The interim financial statements contained in this half-yearly report were approved for issue by the Board of Directors of the Company on 20 February 2015.

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

The interim financial statements are condensed financial statements that have been prepared in accordance with NZ IAS 34 *Interim Financial Reporting*. The disclosures normally required by other standards within New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) to be included in a complete set of annual financial statements are not required to be incorporated into a condensed set of interim financial statements prepared under NZ IAS 34. As a consequence, the interim financial statements do not comply with NZ IFRS.

The interim financial statements, and the comparative information for the six months ended 31 December 2013, are unaudited. The comparative information for the year ended 30 June 2014 is audited.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim financial statements are the same as those adopted in the preparation of the annual financial statements for the year ended 30 June 2014. The interim financial statements should therefore be read in conjunction with those annual financial statements and the accounting policies set out therein.

	Six months ended 31 Dec 2014 \$000	Six months ended 31 Dec 2013 \$000
3. REVENUE		
Sales of goods	103,249	100,663
Provision of installation services	473	1,232
Total revenue	\$103,722	\$101,895
4. OTHER INCOME AND GAINS/LOSSES		
Rentals received	12	11
Dividends received	2	3
Net gain/(loss) on disposal of property, plant and equipment	(16)	24
Total other income and gains/losses	\$(2)	\$38
5. EXPENSES		
Profit before tax includes the following:		
Depreciation	\$2,932	\$3,178
Operating lease and rental costs	\$3,001	\$3,469

	Six months ended 31 Dec 2014 \$000	Six months ended 31 Dec 2013 \$000
6. CASH FLOW RECONCILIATION		
Profit after tax for the period	32	3,447
Add/(Deduct) non-cash and other items:		
Depreciation	2,932	3,178
Share of profit of equity-accounted investee	157	(792)
Deferred government grants	(163)	(161)
Deferred tax asset	(648)	(29)
Employee benefits	(123)	(119)
Deferred income	(34)	(40)
Provisions	(393)	(564)
Net (gain)/loss on sale of property, plant and equipment	16	(24)
Net (gain)/loss on foreign currency balance	(3)	90
Changes in working capital items:		
Trade and other receivables and prepayments	797	1,321
Inventories	(770)	(2,404)
Tax payable	(14)	1,212
Trade creditors and accruals	(1,137)	(1,597)
Derivative financial instruments	(637)	(17)
Net cash flow from operating activities	\$12	\$3,501

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. LOANS AND BORROWINGS AND ASSETS PLEDGED AS SECURITY

The Group's funding facilities, which are provided by Bank of New Zealand and National Australia Bank Limited (together "the Bank"), were amended and extended during the period. These facilities, excluding overdraft facilities repayable on demand, now fall due for further review as follows:

	\$000
Facilities (excluding overdraft)	\$66,280
Due for review	
After 1 year but within 2 years	\$66,280
After 2 years but within 3 years	–

Some of the 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 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.

	As at 31 Dec 2014 \$000	As at 30 June 2014 \$000
8. CAPITAL EXPENDITURE COMMITMENTS		
Capital expenditure commitments	\$867	\$768
9. CONTINGENT LIABILITIES		
Bank guarantees in respect of operating leases and other commitments	\$1,405	\$1,424

10. RELATED PARTY TRANSACTIONS

Equity-accounted investee

CWH, the Group's 50% owned equity-accounted investee, provides the Group's broadloom carpet operations with wool scouring services, whether directly or through wool exporters from whom the Group purchases most of its wool.

The value of services contracted directly with CWH during the six months ended 31 December 2014 was \$407,000 (six months ended 31 December 2013 \$387,000).

A dividend of \$1,250,000 was received from CWH during the six months ended 31 December 2014 (six months ended 31 December 2013 Nil).

11. SEGMENT REPORTING

The Group's reportable segments are:

- carpets, which comprises the manufacturing and sales of carpets by the Cavalier Bremworth and Norman Ellison broadloom carpet businesses and the Ontera Modular carpet tile operation;
- wool acquisition, through Elco Direct; and
- other, being segments that fall below the quantitative thresholds that require separate disclosure.

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

In determining its reportable segments, the Group considered the criteria set out in paragraph 12 of NZ IFRS 8 and was able to aggregate the Cavalier Bremworth, Norman Ellison and Ontera Modular operating segments into a single reportable segment.

The Radford Yarn operation fell below the quantitative thresholds set out in NZ IFRS 8 and is disclosed in "other".

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. SEGMENT REPORTING (continued)

Unaudited

External revenue

Inter-segment revenue

Total revenue

Elimination of inter-segment revenue

Consolidated revenue

Segment result before depreciation

Depreciation

Segment result

Elimination of inter-segment profits

Unallocated corporate costs

Results from operating activities

Net finance costs

Share of profit of equity-accounted investee (net of tax)

Profit before tax

Tax expense

Profit after tax for the period**Employee numbers**

Operations

Unallocated

Total

Capital expenditure

Reportable segment assets

Investment in equity-accounted investee

Total assets

Reportable segment liabilities

Unallocated liabilities

Total liabilities

CARPETS	
Six months ended 31 Dec 2014 \$000	Six months ended 31 Dec 2013 \$000
88,844	87,049
-	-
\$88,844	\$87,049
4,883	8,454
(2,728)	(2,981)
2,155	5,473
657	655
1,391	789
Unaudited As at 31 Dec 2014 \$000	Audited As at 30 June 2014 \$000
157,979	160,740
37,606	40,289

WOOL ACQUISITION		OTHER		TOTAL	
Six months ended 31 Dec 2014 \$000	Six months ended 31 Dec 2013 \$000	Six months ended 31 Dec 2014 \$000	Six months ended 31 Dec 2013 \$000	Six months ended 31 Dec 2014 \$000	Six months ended 31 Dec 2013 \$000
13,267	13,016	1,611	1,830	103,722	101,895
3,525	4,548	2,774	2,376	6,299	6,924
\$16,792	\$17,564	\$4,385	\$4,206	110,021	108,819
				(6,299)	(6,924)
				\$103,722	\$101,895
414	614	386	664	5,683	9,732
(63)	(56)	(141)	(141)	(2,932)	(3,178)
351	558	245	523	2,751	6,554
				180	(161)
				(750)	(980)
				2,181	5,413
				(1,919)	(1,733)
				(157)	792
				105	4,472
				(73)	(1,025)
				\$32	\$3,447
31	33	36	29	724	717
				5	4
				729	721
39	158	283	-	\$1,713	\$947

Unaudited As at 31 Dec 2014 \$000	Audited As at 30 June 2014 \$000	Unaudited As at 31 Dec 2014 \$000	Audited As at 30 June 2014 \$000	Unaudited As at 31 Dec 2014 \$000	Audited As at 30 June 2014 \$000
5,298	3,684	7,382	7,736	170,659	172,160
				24,493	25,900
				\$195,152	\$198,060
3,764	2,890	339	702	41,709	43,881
				61,569	61,220
				\$103,278	\$105,101

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. SEGMENT REPORTING (continued)

Inter-segment transactions

All inter-segmental sales are at market prices, except for sales of yarn from the Radford Yarn operation to the Cavalier Bremworth carpet operation, which are at fully-absorbed manufacturing cost.

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

Information about geographical areas

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

	Six months ended 31 Dec 2014 \$000	Six months ended 31 Dec 2013 \$000
Revenue		
New Zealand	44,400	45,422
Australia	55,900	52,910
Rest of the world	3,422	3,563
	\$103,722	\$101,895
	As at 31 Dec 2014 \$000	As at 30 June 2014 \$000
Non-current assets		
New Zealand	79,203	82,579
Australia	19,254	18,122
	\$98,457	\$100,701

Information about major customers

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

DISCLOSURE OF NON-GAAP FINANCIAL INFORMATION

For the six months ended 31 December 2014

The half year report for the six months ended 31 December 2014 contains financial information that is non-GAAP (Generally Accepted Accounting Practice) and therefore falls within the Financial Markets Authority's guidance note on "Disclosing non-GAAP financial information" issued in September 2012.

Non-GAAP financial information has been prepared using the unaudited GAAP-compliant half year and audited GAAP-compliant full year financial statements of the Group.

Non-GAAP financial information contained within the half year report (more particularly, "*Profit after tax – Normalised*", which is a non-GAAP measure of financial performance) provide useful information to investors regarding the performance of the Group because the calculations exclude restructuring costs that are not expected to occur regularly.

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 significant items within the GAAP-compliant results and the way analysts distinguish between GAAP and non-GAAP measures of profit.

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

DISCLOSURE OF NON-GAAP FINANCIAL INFORMATION (continued)

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

Reconciliation of financial performance

	GAAP-compliant reported profit after tax	Reverse restructuring costs (net of tax)	Normalised profit after tax
Six months ended 30 June 2013 Profit attributable to shareholders	\$1,591,000	\$4,021,000	\$5,612,000
Six months ended 31 December 2012 Profit attributable to shareholders	\$1,439,000	\$(427,000)	\$1,012,000
Six months ended 30 June 2012 Profit attributable to shareholders	\$(5,180,000)	\$5,184,000	\$4,000
Six months ended 31 December 2011 Profit attributable to shareholders	\$3,547,000	\$732,000	\$4,279,000

CORPORATE DIRECTORY

BOARD OF DIRECTORS:

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

Non-executive, Non-independent

Deputy Chair of the Board

Member of Audit, Remuneration and Nomination Committees

G D Edmond BCA (Hons.)

Non-executive, Independent

Member of Audit, Remuneration and Nomination Committees

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

Non-executive, Independent

Chair of Audit Committee

Member of Remuneration and Nomination Committees

S E F Haydon B.Sc., ACA, CInstD

Non-executive, Independent

Member of Audit, Remuneration and Nomination Committees

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

Non-executive, Independent

Chair of the Board

Chair of Remuneration and Nomination Committees

Member of Audit Committee

C A McKenzie Dip.Wool&WoolTech., MInstD

Managing Director and Chief Executive Officer

CHIEF FINANCIAL OFFICER:

P J Alston BBS, CA

COMPANY SECRETARY:

V T S Tan CA, FCIS

FOUNDING SHAREHOLDER:

The late **A C Timpson** ONZM

REGISTERED OFFICE:

7 Grayson Avenue, Papatoetoe, P O Box 97-040, Manukau City 2241.

Telephone: 64-9-277 6000, Facsimile: 64-9-279 4756

SHARE REGISTRAR:

Computershare Investor Services Limited

Level 2, 159 Hurstmere Road, Takapuna, North Shore City, Private Bag 92-119, Auckland 1142.

Telephone: 64-9-488 8700, Facsimile: 64-9-488 8787, Investor Enquiries: 64-9-488 8777

AUDITOR:

KPMG

LEGAL ADVISOR:

Russell McVeagh

BANKERS:

Bank of New Zealand

National Australia Bank Limited

WEBSITES:

Corporate

– www.cavcorp.co.nz

Carpet Operations

– www.cavbrem.co.nz, www.cavbrem.com.au,
www.ontera.com.au, www.normanellison.co.nz

Yarn Operation

– www.radfordyarn.com

Wool Operations

– www.elcodirect.co.nz, www.cavalierwoolscourers.co.nz

Share Registrar

– www.computershare.co.nz/investorcentre



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CORPORATION