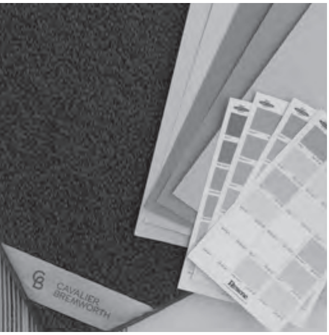
# CAVALIER CORPORATION LIMITED
## HALF YEAR REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2011




Cavalier
CORPORATION

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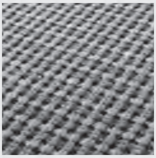


## HALF YEAR REPORT



Printed on sustainable paper

# FINANCIAL SUMMARY

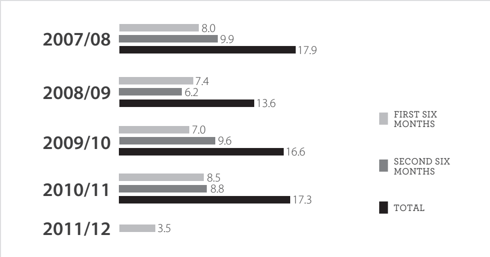
| | **Unaudited Six months ended 31 Dec 2011 $000** | Unaudited Six months ended 31 Dec 2010 $000 | Audited Year ended 30 June 2011 $000 |
|---|---|---|---|
| **Revenue** | **$107,992** | $116,663 | $229,373 |
| Earnings before interest, tax and depreciation | **8,744** | 15,923 | 31,916 |
| Depreciation | **(3,419)** | (3,149) | (6,315) |
| Earnings before interest and tax | **5,325** | 12,774 | 25,601 |
| Net interest expense | **(1,956)** | (1,704) | (3,545) |
| Share of profit of equity-accounted investee (net of income tax) | **1,178** | 819 | 2,039 |
| Profit before income tax | **4,547** | 11,889 | 24,095 |
| Income tax expense | **(1,000)** | (3,363) | (6,829) |
| Profit after income tax (normalised) | **3,547** | 8,526 | 17,266 |
| One-off items | **–** | – | 914 |
| **Profit after income tax (reported)** | **$3,547** | $8,526 | $18,180 |
| **Net cash flow from operating activities** | **$(4,048)** | $539 | $4,318 |
| **Basic and diluted earnings per share (normalised, annualised) (cents)** – based on weighted average number of shares outstanding during the period of 68,263,857 (31 December 2010 – 67,958,944; 30 June 2011 – 68,090,433) | **10.4** | 25.1 | 25.4 |
| **Return on average shareholders' equity (normalised, annualised) (%)** | **7.3%** | 18.5% | 18.1% |
| **Dividends paid per share (cents)** | | | |
| Previous year's final | **11.0** | 11.0 | 11.0 |
| Current year's first interim | **–** | 3.0 | 3.0 |
| Current year's second interim | **–** | – | 4.0 |
| **Total** | **11.0** | 14.0 | 18.0 |

| | **Unaudited As at 31 Dec 2011** | Unaudited As at 31 Dec 2010 | Audited As at 30 June 2011 |
|---|---|---|---|
| **Net tangible asset backing per share ($)** | **$1.30** | $1.28 | $1.34 |
| **Proprietorship ratio (%)** | **44.3%** | 47.0% | 46.0% |
| **Net interest-bearing debt to equity ratio** | **45:55** | 39:61 | 40:60 |

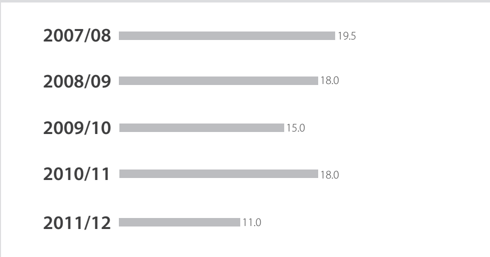
# FINANCIAL SUMMARY

**For the six months ended 31 December 2011**

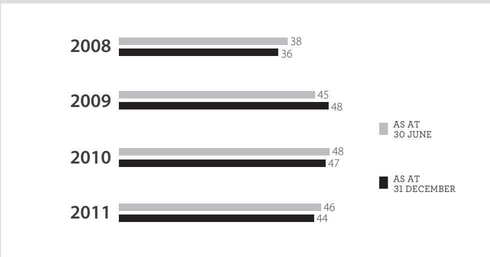
## PROFIT AFTER TAX – NORMALISED ($ MILLIONS)




## DIVIDENDS PAID (CENTS PER SHARE)




## PROPRIETORSHIP RATIO (%)



# DIRECTORS' REVIEW

**For the six months ended 31 December 2011**

## FINANCIAL PERFORMANCE

The Directors of Cavalier Corporation report an unaudited profit after tax for the six months to 31 December 2011 of $3.5 million, a decrease of 58% on the $8.5 million the previous year.

This result includes $0.7 million of restructuring costs, net of tax, but otherwise reflects the very difficult and challenging conditions that the Group has been encountering in both the New Zealand and Australian markets in which it participates.

Group revenue for the six months was $108 million, a decrease of 7% on the $117 million the previous year, with New Zealand-based revenue unchanged on the previous year, but Australian-based revenue down a significant 14% on the previous year.

Return on average shareholders' equity for the six months was 7.3% and earnings per share was 10.4 cents (both annualised) – compared with 18.5% and 25.1 cents respectively the previous year – as a result of the disappointing financial performance.

## FINANCIAL POSITION

Shareholders' equity at 31 December 2011 stood at $96.2 million, which is an improvement of $3.3 million on the $92.9 million a year ago, but down $3.1 million on the $99.3 million at 30 June 2011.

At the same time, total assets employed stood at $217 million as at 31 December 2011 – up $19 million on the $198 million a year ago because of the increased stocks held, the impact of the substantial lift in wool prices on the carrying value of our carpet stocks and the assets acquired as part of the acquisition of the Radford Yarn operation, but little changed on the $216 million at 30 June 2011.

As a result, shareholders' equity accounted for 44% of total assets employed at balance date, compared with 47% a year ago and 46% at 30 June 2011.

Net interest-bearing debt at balance date stood at $78.1 million and net interest-bearing debt to equity ratio was 45:55. The previous year's figures were $59.5 million and 39:61 respectively and those six months ago were $66.3 million and 40:60 respectively.

The Group's financial position is expected to improve once the stock reduction programme gains traction and it is able to reduce net interest-bearing debt.

## SEGMENT REVIEWS

### Carpet Business

Our carpet business comprises broadloom carpets and carpet tiles, and although some of its products can be found elsewhere in the world, New Zealand and Australia continue to remain the main markets by far.

# DIRECTORS' REVIEW (CONTINUED)

**For the six months ended 31 December 2011**

In the six months to 31 December 2011, our carpet business produced earnings before interest and tax (EBIT) of $5.6 million on revenue of $93.0 million, compared with EBIT of $13.4 million on revenue of $108.3 million the previous year – a decrease of 58% and 14% respectively.

As a consequence, EBIT as a percentage of revenue fell to 6.0% in this latest six month period, compared with 12.4% in the previous year. The fall was the result of competitive pricing pressures, fixed overheads on lower sales volume and the one-off restructuring costs of $1 million to better match manufacturing capacities with lower sales.

In comparing the results for the six months to 31 December 2011 against those for the previous year, the persistent soft market conditions on both sides of the Tasman stood out.

We were faced with some of the most difficult trading conditions ever experienced by the business during the period. New housing and commercial building activity levels in New Zealand remained soft. They were also in the process of slowing down in Australia heading into the 2011/12 financial year, but these were hastened by the European sovereign debt crisis that unfolded and the fear that another global recession would soon follow.

At the same time, the business also had to implement a substantial 10 to 20% price increase on its wool carpets due to an 80% increase in wool prices during the 2010/11 season which had the effect of giving carpets made from alternative fibres a pricing advantage over wool carpets.

## Wool Business

Our wool business comprises the Elco Direct wool acquisition operation and our 50% interest in commission wool scourer, Cavalier Wool Holdings Limited (CWH).

Elco Direct volumes for the six months to December 2011 were down 6% on the previous year, but revenue of $17.8 million was up 32% due to higher wool prices. New Zealand's total wool exports over the same period fell by 11%, highlighting the challenging conditions in this operating segment.

EBIT for Elco Direct for the period came in at $359,000 which is an improvement on the previous year's $216,000.

Cavalier's share of the tax-paid earnings of CWH for the six months to 31 December 2011 is $1,178,000, compared with $819,000 the previous year.

CWH's scour volumes were down 13% for the six months, which is against earlier predictions of an increase in wool volumes for the season. In fact, national scouring volumes fell by 15% over this same period. It is difficult to know how much of this will be made up in the second half of the year, but it appears, for now, that the industry's earlier estimates of sheep numbers could have been too high. However, sheep farmers remain highly incentivised to increase sheep numbers which would mean more wool available for scouring further down the track.

CWH's plans to rationalise the scouring industry by consolidating the New Zealand Wool Services International scours with its own have to date been a protracted process, but it is continuing to look at all possible options.

The Directors will continue to inform shareholders of any significant developments as they unfold.

### Yarn Business

The Radford Yarn Technologies operation – which 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 – also struggled with the high wool price and the high NZD against the USD and the EUR.

As a result, sales have fallen behind earlier expectations.

## RETIREMENT OF WAYNE CHUNG, AND APPOINTMENT OF COLIN MCKENZIE, AS CHIEF EXECUTIVE OFFICER

The Directors advise that Chief Executive Officer and Managing Director, Mr Wayne Chung, will be retiring from his executive role on 15 March 2012 and that Chief Operating Officer, Mr Colin McKenzie, has been appointed as Chief Executive Officer Designate.

Mr Chung will, however, remain on the Board as a non-executive director.

Mr Chung has been responsible for a number of significant initiatives during his eight years as CEO and MD and the Directors take this opportunity to acknowledge Mr Chung's contribution and to thank him for his leadership and dedication to the Company.

The Directors are particularly pleased that Mr Chung has agreed to continue in a non-executive capacity and hence will be able to contribute, in a mentoring and supporting role, from the considerable experience and knowledge he has amassed during his almost 40 years in the carpet industry.

Mr McKenzie joined the Cavalier Bremworth broadloom carpet operation as General Manager Manufacturing in February 2003 before being appointed Group General Manager Operations in 2005 and Chief Operating Officer in 2008.

Mr McKenzie's appointment as Chief Executive Officer has been the result of a robust succession programme aimed at developing high-calibre executives for key roles within the Company and will enable the Company to continue to pursue and develop, in a coordinated and measured manner, the strategies formulated when Mr Chung was CEO and MD.

In anticipation of the eventual appointment of Mr McKenzie as Managing Director, the Directors will also be appointing Mr McKenzie to the Board with effect from 15 March and look forward to introducing him to shareholders at the Annual Meeting of shareholders in November.

# DIRECTORS' REVIEW (CONTINUED)

**For the six months ended 31 December 2011**

## EARNINGS OUTLOOK

Unfortunately, we do not see any immediate relief from the current very soft market conditions for our carpet business.

For the second half of the year, we expect to see market conditions remain similar to those experienced in the first half. This is against our earlier predictions in November last year when we were expecting an improvement in market conditions.

As a result, the earnings guidance range that was provided in November last year of $8.5 million to $10.5 million tax-paid is now no longer attainable.

Given these difficult and unpredictable trading conditions, it is also not possible to provide shareholders with a full year earnings guidance update at this stage.

Naturally, the Directors are very disappointed with this situation, but wish to take this opportunity to assure shareholders that the management team is doing everything it can under these very trying conditions to optimise performance.

The Directors will inform shareholders should conditions change.

Looking ahead to the following 2012/13 year, there is cause for some optimism. The Reserve Bank of Australia's recent lowering of the cash rate in early November, and again in December, have already flowed through into mortgage interest rates and should, over time, help to restore confidence in the housing market in Australia. The much talked about re-build of Christchurch should be well underway by then. We should also expect to see some relief from lower wool prices, which have fallen 15% over the last few months, on the cost of our woollen carpets and the pricing differentials between these and carpets made from non-wool fibres.

## DIVIDENDS

Given the disappointing results for the first half and the short term earnings outlook, the Directors have decided not to pay any interim dividend for the current 2011/12 financial year.

This will come as a disappointment to shareholders, but the Directors believe that it is important that we focus on strengthening the Group's financial position and reducing debt during these challenging times.

The Directors will review the dividend position again at the end of the year when we ought to have a better feel for the trading conditions and the earnings outlook further out.

**A M James**
Chairman

**W K Chung**
Managing Director

17 February 2012

# AUDITORS' REVIEW REPORT

KPMG

## TO THE SHAREHOLDERS OF CAVALIER CORPORATION LIMITED

We have reviewed the attached interim financial statements in accordance with the Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants. The financial statements provide information about the past financial performance of Cavalier Corporation Limited and its subsidiaries ("the Group") and its financial position as at 31 December 2011.

## DIRECTORS' RESPONSIBILITIES

The Directors of Cavalier Corporation Limited are responsible for the preparation of interim financial statements which give a true and fair view of the financial position of the Group as at 31 December 2011 and the results of its operations and cash flows for the six months ended on that date.

## REVIEWERS' RESPONSIBILITIES

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

## BASIS OF OPINION

A review is limited primarily to enquiries of Group personnel and analytical review procedures applied to the financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

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

## REVIEW OPINION

Based on our review, nothing has come to our attention that causes us to believe that the attached interim financial statements do not give a true and fair view of the financial position of the Group as at 31 December 2011, the results of its operations and cash flows for the six months ended on that date in accordance with NZ IAS 34 Interim Financial Reporting.

Our review was completed on 17 February 2012 and our opinion is expressed as at that date.

KPMG

Auckland

# CONDENSED CONSOLIDATED INCOME STATEMENT

| | Notes | **Unaudited Six months ended 31 Dec 2011 $000** | Unaudited Six months ended 31 Dec 2010 $000 | Audited Year ended 30 June 2011 $000 |
|---|---|---|---|---|
| Revenue | 3 | **107,992** | 116,663 | 229,373 |
| Cost of sales | | **(73,784)** | (76,767) | (150,933) |
| **Gross profit** | | **34,208** | 39,896 | 78,440 |
| Other income and gains/(losses) | 4 | **88** | (1) | (9) |
| Distribution expenses | | **(20,559)** | (20,307) | (38,692) |
| Administration expenses | | **(7,396)** | (6,814) | (13,986) |
| **Results from operating activities before restructuring costs and impairment of trademarks** | | **6,341** | 12,774 | 25,753 |
| Restructuring costs | | **(1,016)** | – | – |
| Impairment of trademarks | | **–** | – | (152) |
| **Results from operating activities** | | **5,325** | 12,774 | 25,601 |
| Finance income | | **–** | – | – |
| Finance expenses | | **(1,956)** | (1,704) | (3,545) |
| **Net finance costs** | | **(1,956)** | (1,704) | (3,545) |
| Share of profit of equity-accounted investee (net of income tax) | | **1,178** | 819 | 2,196 |
| **Profit before income tax** | 5 | **4,547** | 11,889 | 24,252 |
| Income tax expense | | **(1,000)** | (3,363) | (6,072) |
| **Profit after tax for the period** | | **$3,547** | $8,526 | $18,180 |
| **Profit after tax attributable to:** | | | | |
| Shareholders of Cavalier Corporation Limited | | **3,547** | 8,526 | 18,180 |
| Non-controlling interests | | **–** | – | – |
| **Profit after tax for the period** | | **$3,547** | $8,526 | $18,180 |
| **Basic and diluted earnings per share (cents)** | | **5.2** | 12.5 | 26.7 |
| **Weighted average number of shares outstanding during the period (000s)** | | **68,263.9** | 67,958.9 | 68,090.4 |

This statement is to be read in conjunction with the Notes on pages 15 to 23 and the previous year's annual financial statements.

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | **Unaudited Six months ended 31 Dec 2011 $000** | Unaudited Six months ended 31 Dec 2010 $000 | Audited Year ended 30 June 2011 $000 |
|---|---|---|---|
| **Profit after tax for the period** | **3,547** | 8,526 | 18,180 |
| **Other comprehensive income** | | | |
| Effective portion of changes in fair value of cash flow hedges | **(411)** | (264) | (69) |
| Net change in fair value of cash flow hedges transferred to profit or loss | **(292)** | (628) | (628) |
| Foreign currency translation differences for foreign operations | **464** | 1,971 | 1,508 |
| Changes in amounts payable to non-controlling interests | **858** | – | (584) |
| Income tax on other comprehensive income | **192** | 268 | 205 |
| **Other comprehensive income for the period, net of income tax** | **811** | 1,347 | 432 |
| **Total comprehensive income for the period** | **$4,358** | $9,873 | $18,612 |
| **Total comprehensive income attributable to:** | | | |
| Shareholders of Cavalier Corporation Limited | **4,358** | 9,873 | 18,612 |
| Non-controlling interests | **–** | – | – |
| **Total comprehensive income for the period** | **$4,358** | $9,873 | $18,612 |

This statement is to be read in conjunction with the Notes on pages 15 to 23 and the previous year's annual financial statements.

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**Six months ended 31 December 2011 (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** | **$21,157** | **$(370)** | **$2,732** | **$1,333** | **$74,442** | **$99,294** |
| **Total comprehensive income for the period** | | | | | | |
| **Profit after tax for the period** | – | – | – | – | 3,547 | 3,547 |
| **Other comprehensive income for the period** | | | | | | |
| Effective portion of changes in fair value of cash flow hedges (net of tax) | – | (511) | – | – | – | (511) |
| Foreign currency translation differences for foreign operations | – | – | 464 | – | – | 464 |
| Changes in amounts payable to non-controlling interests | – | – | – | – | 858 | 858 |
| **Total other comprehensive income** | – | (511) | 464 | – | 858 | 811 |
| **Total comprehensive income for the period** | – | (511) | 464 | – | 4,405 | 4,358 |
| **Transactions with owners, recorded directly in equity** | | | | | | |
| Dividends paid to equity holders of the Company | – | – | – | – | (7,509) | (7,509) |
| Equity-settled share-based payments | – | – | – | 48 | – | 48 |
| **Total equity at end of the period** | **$21,157** | **$(881)** | **$3,196** | **$1,381** | **$71,338** | **$96,191** |

This statement is to be read in conjunction with the Notes on pages 15 to 23 and the previous year's annual financial statements.

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

**Six months ended 31 December 2010 (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** | $19,854 | $122 | $1,224 | $1,172 | $69,079 | $91,451 |
| **Total comprehensive income for the period** | | | | | | |
| **Profit after tax for the period** | – | – | – | – | 8,526 | 8,526 |
| **Other comprehensive income for the period** | | | | | | |
| Effective portion of changes in fair value of cash flow hedges (net of tax) | – | (624) | – | – | – | (624) |
| Foreign currency translation differences for foreign operations | – | – | 1,971 | – | – | 1,971 |
| **Total other comprehensive income** | – | (624) | 1,971 | – | – | 1,347 |
| **Total comprehensive income for the period** | – | (624) | 1,971 | – | 8,526 | 9,873 |
| **Transactions with owners, recorded directly in equity** | | | | | | |
| Dividends paid to equity holders of the Company | – | – | – | – | (9,505) | (9,505) |
| Issue of ordinary shares | 1,008 | – | – | – | – | 1,008 |
| Equity-settled share-based payments | – | – | – | 100 | – | 100 |
| **Total equity at end of the period** | **$20,862** | **$(502)** | **$3,195** | **$1,272** | **$68,100** | **$92,927** |

This statement is to be read in conjunction with the Notes on pages 15 to 23 and the previous year's annual financial statements.

# CONDENSED CONSOLIDATED
# STATEMENT OF CHANGES IN EQUITY (CONTINUED)

**Year ended 30 June 2011 (Audited)**

| | 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** | $19,854 | $122 | $1,224 | $1,172 | $69,079 | $91,451 |
| **Total comprehensive income for the period** | | | | | | |
| **Profit after tax for the period** | – | – | – | – | 18,180 | 18,180 |
| **Other comprehensive income for the period** | | | | | | |
| Effective portion of changes in fair value of cash flow hedges (net of tax) | – | (492) | – | – | – | (492) |
| Foreign currency translation differences for foreign operations | – | – | 1,508 | – | – | 1,508 |
| Changes in amounts payable to non-controlling interests | – | – | – | – | (584) | (584) |
| **Total other comprehensive income** | – | (492) | 1,508 | – | (584) | 432 |
| **Total comprehensive income for the period** | – | (492) | 1,508 | – | 17,596 | 18,612 |
| **Transactions with owners, recorded directly in equity** | | | | | | |
| Dividends paid to equity holders of the Company | – | – | – | – | (12,233) | (12,233) |
| Issue of ordinary shares | 1,303 | – | – | – | – | 1,303 |
| Equity-settled share-based payments | – | – | – | 161 | – | 161 |
| **Total equity at end of the period** | **$21,157** | **$(370)** | **$2,732** | **$1,333** | **$74,442** | **$99,294** |

This statement is to be read in conjunction with the Notes on pages 15 to 23 and the previous year's annual financial statements.

# CONDENSED CONSOLIDATED
# STATEMENT OF FINANCIAL POSITION

| | Notes | Unaudited As at 31 Dec 2011 $000 | Unaudited As at 31 Dec 2010 $000 | Audited As at 30 June 2011 $000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Property, plant and equipment | 7 | **78,969** | 76,632 | 80,110 |
| Intangible assets | | **7,502** | 5,376 | 7,502 |
| Investment in equity-accounted investee | | **21,469** | 20,914 | 22,291 |
| Deferred tax asset | | **544** | – | 158 |
| **Total non-current assets** | | **108,484** | 102,922 | 110,061 |
| Cash and cash equivalents | | **305** | 3,213 | 1,396 |
| Trade receivables, other receivables and prepayments | | **28,190** | 31,573 | 30,404 |
| Inventories | | **79,811** | 60,104 | 73,161 |
| Derivative financial instruments | | **177** | 7 | 683 |
| Plant and equipment held for sale | | **–** | 20 | 20 |
| **Total current assets** | | **108,483** | 94,917 | 105,664 |
| **Total assets** | | **$216,967** | $197,839 | $215,725 |
| **EQUITY** | | | | |
| Share capital | | **21,157** | 20,862 | 21,157 |
| Cash flow hedging reserve | | **(881)** | (502) | (370) |
| Foreign currency translation reserve | | **3,196** | 3,195 | 2,732 |
| Share rights reserve | | **1,381** | 1,272 | 1,333 |
| Retained earnings | | **71,338** | 68,100 | 74,442 |
| **Total equity attributable to equity holders of the Company** | | **96,191** | 92,927 | 99,294 |
| **LIABILITIES** | | | | |
| Loans and borrowings | 8 | **69,570** | 59,000 | 60,070 |
| Employee benefits | | **3,553** | 3,432 | 3,475 |
| Amounts payable to non-controlling interests | | **850** | 2,400 | 850 |
| Deferred income | | **402** | 370 | 392 |
| Provisions | | **210** | 210 | 210 |
| Deferred tax liability | | **–** | 115 | – |
| **Total non-current liabilities** | | **74,585** | 65,527 | 64,997 |
| Bank overdraft | 8 | **770** | 943 | 94 |
| Loans and borrowings | 8, 12 | **8,073** | 2,783 | 7,523 |
| Trade creditors and accruals | | **25,998** | 25,393 | 29,235 |
| Provisions | | **705** | 723 | 710 |
| Employee entitlements | | **6,113** | 6,710 | 7,522 |
| Amount payable to non-controlling interests | | **2,099** | 451 | 3,263 |
| Deferred income | | **70** | 70 | 70 |
| Derivative financial instruments | | **1,398** | 1,099 | 1,064 |
| Tax payable | | **965** | 1,213 | 1,953 |
| **Total current liabilities** | | **46,191** | 39,385 | 51,434 |
| **Total liabilities** | | **120,776** | 104,912 | 116,431 |
| **Total equity and liabilities** | | **$216,967** | $197,839 | $215,725 |

This statement is to be read in conjunction with the Notes on pages 15 to 23 and the previous year's annual financial statements.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | Notes | Unaudited Six months ended 31 Dec 2011 $000 | Unaudited Six months ended 31 Dec 2010 $000 | Audited Year ended 30 June 2011 $000 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Cash receipts from customers | | **111,188** | 111,500 | 230,698 |
| Cash paid to suppliers and employees | | **(111,143)** | (103,628) | (215,874) |
| | | **45** | 7,872 | 14,824 |
| Dividends received | | **2** | 3 | 3 |
| Other receipts | | **11** | 13 | 25 |
| GST refunded/(paid) | | **(147)** | (1,473) | (634) |
| Interest paid | | **(1,814)** | (1,930) | (3,611) |
| Income tax paid | | **(2,145)** | (3,946) | (6,289) |
| **Net cash flow from operating activities** | 6 | **(4,048)** | 539 | 4,318 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Proceeds from sale of property, plant and equipment | | **47** | 72 | 80 |
| Proceeds from sale of plant and equipment held for resale | | **119** | – | – |
| Acquisition of property, plant and equipment | 7 | **(2,026)** | (2,588) | (5,391) |
| Receipt of Australian Government grants | | **–** | 1,241 | 1,427 |
| Contingent purchase consideration of non-controlling interests | | **(306)** | (84) | (172) |
| Dividends received from equity-accounted investee | | **2,000** | – | – |
| Acquisition of subsidiary, net of cash acquired | | **–** | – | (5,543) |
| **Net cash flow from investing activities** | | **(166)** | (1,359) | (9,599) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Borrowings made/(repaid) | | **9,959** | 8,809 | 14,733 |
| Dividends paid to equity holders of the Company | | **(7,509)** | (9,505) | (12,233) |
| Shares issued in accordance with the dividend reinvestment plan | | **–** | 1,008 | 1,303 |
| **Net cash flow from financing activities** | | **2,450** | 312 | 3,803 |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | **(1,764)** | (508) | (1,478) |
| Cash and cash equivalents at beginning of the period | | **1,302** | 2,737 | 2,737 |
| Effect of exchange rate changes on cash | | **(3)** | 41 | 43 |
| **CASH AND CASH EQUIVALENTS AT END OF THE PERIOD** | | **$(465)** | $2,270 | $1,302 |

This statement is to be read in conjunction with the Notes on pages 15 to 23 and the previous year's annual financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

**For the six months ended 31 December 2011**

## 1. GENERAL

Cavalier Corporation Limited ("Cavalier" or "Company") is a company that is domiciled and incorporated 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 1993 and is, accordingly, a reporting entity that is required to, and does, comply with the provisions of both the Companies Act 1993 and the Financial Reporting Act 1993 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 the subsidiaries in the Group are wholly-owned except for the following:

- Norman Ellison Carpets Limited, Carpet Distributors Limited, Norman Ellison Carpets Proprietary Limited and two dormant companies in the Norman Ellison group of companies – 70% owned
- Ontera Modular Carpets Proprietary Limited and Ontera Modular Carpets Limited – 96.75% owned
- Radford Yarn Technologies Limited – 75% owned

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

Cavalier also has a 50% interest in Cavalier Wool Holdings Limited, Cavalier Woolscourers Limited and five dormant companies in the Cavalier Wool Holdings group of companies. The Cavalier Wool Holdings group of companies is involved in commission wool scouring.

The Company is listed on the New Zealand Exchange (NZX) and is required to comply with the provisions of the NZSX 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 17 February 2012.

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.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**For the six months ended 31 December 2011**

The interim financial statements are condensed financial statements that have been prepared in accordance with NZ IAS 34 *Interim Financial Reporting*. Because the disclosures normally required by the 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, 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 2010, are unaudited. The comparative information for the year ended 30 June 2011 is audited.

## 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 2011. 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 2011 $000** | Six months ended 31 Dec 2010 $000 | Year ended 30 June 2011 $000 |
|---|---|---|---|
| **3. REVENUE** | | | |
| Sales of goods | **$107,992** | $116,663 | $229,373 |
| **4. OTHER INCOME AND GAINS/(LOSSES)** | | | |
| Dividends received | **2** | 3 | 3 |
| Rentals received | **11** | 12 | 25 |
| Net gain/(loss) on disposal of property, plant and equipment | **(24)** | (16) | (37) |
| Net gain/(loss) on disposal of plant and equipment held for resale | **99** | – | – |
| Total other income and gains/(losses) | **$88** | $(1) | $(9) |
| **5. EXPENSES** | | | |
| **Profit before income tax includes the following:** | | | |
| Depreciation | **$3,419** | $3,149 | $6,315 |
| Operating lease and rental costs | **$3,686** | $3,565 | $7,342 |

| | **Six months ended 31 Dec 2011 $000** | Six months ended 31 Dec 2010 $000 | Year ended 30 June 2011 $000 |
|---|---|---|---|
| **6. CASH FLOW RECONCILIATION** | | | |
| **Profit after tax for the period** | **3,547** | 8,526 | 18,180 |
| **Add/(deduct) non-cash and other items:** | | | |
| Equity-settled share-based transactions | **48** | 100 | 161 |
| Depreciation | **3,419** | 3,149 | 6,315 |
| Impairment of trademarks | **–** | – | 152 |
| Share of profit of equity-accounted investee | **(1,178)** | (819) | (2,196) |
| Deferred government grants | **–** | – | (388) |
| Deferred tax asset/liability | **(168)** | (226) | (589) |
| Employee benefits | **75** | (166) | (120) |
| Deferred income | **10** | 17 | 39 |
| Provisions | **(5)** | 217 | 10 |
| Net (gain)/loss on sale of property, plant and equipment | **24** | 16 | 37 |
| Net (gain)/loss on sale of plant and equipment held for resale | **(99)** | – | – |
| Net (gain)/loss on foreign currency balance | **(16)** | 26 | (12) |
| **Changes in working capital items:** | | | |
| Trade and other receivables and prepayments | **2,316** | 1,168 | 1,997 |
| Inventories | **(6,497)** | (6,985) | (19,925) |
| Tax payable | **(991)** | (400) | 360 |
| Trade creditors and accruals | **(4,675)** | (4,880) | 18 |
| Derivative financial instruments | **142** | 796 | 279 |
| **Net cash flow from operating activities** | **$(4,048)** | $539 | $4,318 |

## 7. ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The acquisition of property, plant and equipment during the period relates, in the main, to capacity enhancement and process improvement projects, with $1 million incurred in New Zealand and $1 million in Australia.

## 8. ASSETS PLEDGED AS SECURITY

The Group's funding facilities are with the ANZ National Bank Limited and the Australia and New Zealand Banking Group Limited ("the Bank"). These funding facilities are secured by various general security agreements with the Bank and by registered mortgages over land and buildings.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**For the six months ended 31 December 2011**

## 9. EVENTS AFTER BALANCE DATE

### Acquisition of balance of Norman Ellison Carpets Limited

The Company completed, after balance date, its acquisition of the 30% of Norman Ellison Carpets Limited not already owned by it.

The purchase price of this 30% interest, which had previously been provided for in the financial statements, amounted to $1,518,877 calculated in accordance with the terms of the shareholders' agreement between the parties at the time of the purchase of the initial 70% of Norman Ellison Carpets Limited in February 2008.

Pursuant to NZ IAS 32 *Financial Instruments: Disclosure and Presentation*, the Group has been recognising the put options granted to the non-controlling interests of Norman Ellison Carpets Limited in respect of their 30% shareholding as financial liabilities, effectively treating these put options as if they had already been exercised and dealing with the Norman Ellison group of companies in the consolidated financial statements as if it was 100% owned.

As a consequence, this acquisition of the 30% of Norman Ellison Carpets Limited will not affect the way the Norman Ellison Carpets group of companies has previously been accounted for.

| | **As at 31 Dec 2011 $000** | As at 31 Dec 2010 $000 | As at 30 June 2011 $000 |
|---|---|---|---|
| **10. CAPITAL EXPENDITURE COMMITMENTS** | | | |
| Capital expenditure commitments | **$544** | $962 | $678 |
| **11. CONTINGENT LIABILITIES** | | | |
| Bank guarantees in respect of operating leases and other obligations | **$1,605** | $1,598 | $1,593 |
| **12. RELATED PARTY TRANSACTIONS** | | | |
| **Substantial security holders** | | | |
| Loans and borrowings disclosed under current liabilities in the Statement of Financial Position include borrowings from the following related parties: | | | |
| Chippendale Holdings Limited | **1,812** | 1,293 | 1,350 |
| Rural Aviation (1963) Limited | **86** | 91 | 89 |
| Total | **$1,898** | $1,384 | $1,439 |
| Interest rate | **3.45%** | 3.95% | 3.45% |

These borrowings are unsecured borrowings that are repayable on demand. The interest rates on these borrowings as at the various balance dates as disclosed can be compared with the commercial interest rates of 3.95%, 4.57% and 4.05% respectively for borrowings of a similar tenure from the ANZ National Bank Limited. Chippendale Holdings Limited and Rural Aviation (1963) Limited are substantial security holders in the Company.

### Executives

The Company did not issue any share rights pursuant to the Cavalier Corporation Limited 2000 Executive Share Rights Plan during the six months ended 31 December 2011 (six months ended 31 December 2010 and 12 months ended 30 June 2011 Nil).

### 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 the 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 2011 was $594,000 (six months ended 31 December 2010 $705,000; 12 months ended 30 June 2011 $1,537,000).

The Group also provides CWH with management services. The value of the fees charged during the six months ended 31 December 2011 was $36,000 (six months ended 31 December 2010 $36,000; 12 months ended 30 June 2011 $72,000).

Dividends totalling $2,000,000 were received from CWH during the six months ended 31 December 2011 (six months ended 31 December 2010 Nil; 12 months ended 30 June 2011 Nil).

## 13. SEGMENT REPORTING

The Group's reportable segments are:

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

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 to be a reportable segment.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**For the six months ended 31 December 2011**

## 13. SEGMENT REPORTING (CONTINUED)

| | Carpets | |
|---|---|---|
| | **Six months ended 31 Dec 2011 $000** | Six months ended 31 Dec 2010 $000 |
| External revenue | **92,000** | 108,327 |
| Inter-segment revenue | **950** | – |
| **Total revenue** | **$92,950** | $108,327 |
| Elimination of inter-segment revenue | | |
| Consolidated revenue | | |
| Earnings before interest, tax and depreciation | **8,806** | 16,443 |
| Depreciation | **(3,234)** | (3,092) |
| **Earnings before interest and tax** | **5,572** | 13,351 |
| Elimination of inter-segment profits | | |
| Gain on sale of plant and equipment held for resale | | |
| Unallocated corporate costs | | |
| Consolidated results from operating activities | | |
| Net finance costs | | |
| Share of profit of equity-accounted investee (net of income tax) | | |
| Profit before income tax | | |
| Income tax expense | | |
| **Profit after tax for the period** | | |
| Reportable segment assets | **181,021** | 170,577 |
| Investment in equity-accounted investee | | |
| Unallocated assets | | |
| **Total assets** | | |
| **Capital expenditure** | **1,689** | 2,557 |
| Reportable segment liabilities | **38,988** | 39,787 |
| Unallocated liabilities | | |
| **Total liabilities** | | |
| **Employee numbers** | | |
| Operations | **814** | 909 |
| Unallocated | | |
| Total | | |

| Wool Acquisition | | Others | | Total | |
|---|---|---|---|---|---|
| **Six months ended 31 Dec 2011 $000** | Six months ended 31 Dec 2010 $000 | **Six months ended 31 Dec 2011 $000** | Six months ended 31 Dec 2010 $000 | **Six months ended 31 Dec 2011 $000** | Six months ended 31 Dec 2010 $000 |
| **14,018** | 8,336 | **1,974** | – | **107,992** | 116,663 |
| **3,763** | 5,086 | **2,206** | – | **6,919** | 5,086 |
| **$17,781** | $13,422 | **$4,180** | – | **114,911** | 121,749 |
| | | | | **(6,919)** | (5,086) |
| | | | | **$107,992** | $116,663 |
| **413** | 273 | **303** | – | **9,522** | 16,716 |
| **(54)** | (57) | **(131)** | – | **(3,419)** | (3,149) |
| **359** | 216 | **172** | – | **6,103** | 13,567 |
| | | | | **45** | 130 |
| | | | | **99** | – |
| | | | | **(922)** | (923) |
| | | | | **5,325** | 12,774 |
| | | | | **(1,956)** | (1,704) |
| | | | | **1,178** | 819 |
| | | | | **4,547** | 11,889 |
| | | | | **(1,000)** | (3,363) |
| | | | | **$3,547** | $8,526 |
| **6,676** | 6,328 | **7,801** | – | **195,498** | 176,905 |
| | | | | **21,469** | 20,914 |
| | | | | **–** | 20 |
| | | | | **$216,967** | $197,839 |
| **76** | 31 | **261** | – | **$2,026** | $2,588 |
| **2,445** | 3,342 | **1,700** | – | **43,133** | 43,129 |
| | | | | **77,643** | 61,783 |
| | | | | **$120,776** | $104,912 |
| **32** | 28 | **31** | – | **877** | 937 |
| | | | | **4** | 4 |
| | | | | **881** | 941 |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**For the six months ended 31 December 2011**

## 13. SEGMENT REPORTING (CONTINUED)

| | Carpets | Wool Acquisition | Others | Total |
|---|---|---|---|---|
| | Year ended 30 June 2011 $000 | Year ended 30 June 2011 $000 | Year ended 30 June 2011 $000 | Year ended 30 June 2011 $000 |
| External revenue | 204,444 | 23,380 | 1,549 | 229,373 |
| Inter-segment revenue | – | 17,038 | 463 | 17,501 |
| **Total revenue** | $204,444 | $40,418 | $2,012 | 246,874 |
| Elimination of inter-segment revenue | | | | (17,501) |
| Consolidated revenue | | | | $229,373 |
| Earnings before interest, tax and depreciation | 32,386 | 1,663 | (11) | 34,038 |
| Depreciation | (6,162) | (88) | (65) | (6,315) |
| **Earnings before interest and tax** | 26,224 | 1,575 | (76) | 27,723 |
| Elimination of inter-segment profits | | | | (162) |
| Unallocated corporate costs | | | | (1,960) |
| Consolidated results from operating activities | | | | 25,601 |
| Net finance costs | | | | (3,545) |
| Share of profit of equity-accounted investee (net of income tax) | | | | 2,196 |
| Profit before income tax | | | | 24,252 |
| Income tax expense | | | | (6,072) |
| **Profit after tax for the period** | | | | $18,180 |
| Reportable segment assets | 180,562 | 4,746 | 8,106 | 193,414 |
| Investment in equity-accounted investee | | | | 22,291 |
| Unallocated assets | | | | 20 |
| **Total assets** | | | | $215,725 |
| **Capital expenditure** | 5,259 | 73 | 59 | $5,391 |
| Reportable segment liabilities | 44,049 | 3,611 | 1,178 | 48,838 |
| Unallocated liabilities | | | | 67,593 |
| **Total liabilities** | | | | $116,431 |
| **Employee numbers** | | | | |
| Operations | 885 | 26 | 34 | 945 |
| Unallocated | | | | 4 |
| Total | | | | 949 |

## 13. SEGMENT REPORTING (CONTINUED)

### Inter-segment transactions

All inter-segmental sales are at market prices. 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 2011 $000** | Six months ended 31 Dec 2010 $000 | Year ended 30 June 2011 $000 |
|---|---|---|---|
| **Revenue** | | | |
| New Zealand | **45,475** | 45,272 | 92,776 |
| Australia | **59,585** | 69,460 | 131,716 |
| Rest of the world | **2,932** | 1,931 | 4,881 |
| | **$107,992** | $116,663 | $229,373 |

| | **As at 31 Dec 2011 $000** | As at 31 Dec 2010 $000 | As at 30 June 2011 $000 |
|---|---|---|---|
| **Non-current assets** | | | |
| New Zealand | **82,416** | 78,762 | 84,027 |
| Australia | **26,068** | 24,160 | 26,034 |
| | **$108,484** | $102,922 | $110,061 |

### 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.

# CORPORATE DIRECTORY[1]

## BOARD OF DIRECTORS:

| | |
|---|---|
| **G C W Biel** B.E. (Mech.)<br>Non-executive, Non-independent | Deputy Chairman of the Board<br>Member of Audit Committee<br>Member of Remuneration Committee |
| **W K Chung** B.Com. [2] | |
| **G S Hawkins** B.Sc., B.Com., ACA, FInstD<br>Non-executive, Independent | Chairman of Audit Committee<br>Member of Remuneration Committee |
| **D W Huse** BCA, CA, MInstD, MAICD<br>Non-executive, Independent | Member of Audit Committee<br>Member of Remuneration Committee |
| **A M James** B.Tech. (Hons.), Dip.Bus.Admin.<br>Non-executive, Independent | Chairman of the Board<br>Member of Audit Committee<br>Chairman of Remuneration Committee |
| **C A McKenzie** | Managing Director and Chief Executive Officer |
| **K L Thorpe** M.A.<br>Non-executive, Independent | Member of Audit Committee<br>Member of Remuneration Committee |

## COMPANY SECRETARY:

**V T S Tan** CA, ACIS

## FOUNDING SHAREHOLDER:

**A C Timpson** ONZM, FInstD

## 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

## AUDITORS:

KPMG

## LEGAL ADVISORS:

Hornabrook Macdonald    Minter Ellison Rudd Watts

## BANKERS:

ANZ National Bank Limited    Australia and New Zealand Banking Group Limited

## WEBSITES:

| | |
|---|---|
| Corporate | www.cavcorp.co.nz |
| Carpet Operations | www.cavbrem.co.nz, www.cavbrem.com.au, www.knightsbridgecarpets.co.nz, www.kimberleycarpets.com.au, www.ontera.com.au, www.normanellison.co.nz |
| Yarn Operation | www.radfordyarn.com |
| Wool Operation | www.elcodirect.co.nz |
| Share Registrar | www.computershare.co.nz/investorcentre |

[1] With effect from 15 March 2012.
[2] Executive director until 30 April 2012, non-executive non-independent director thereafter.

BREMWORTH COLLECTION

CAVALIER BREMWORTH

Knightsbridge Carpets

Kimberley Carpets

ElcoDirect Wool Buyers

RadfordYarn New Zealand

The Georgia Collection

tramore

Norman Ellison Carpets

Ontera A STEP AHEAD