CAVALIER
CORPORATION

HALF YEAR REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2015

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FINANCIAL SUMMARY

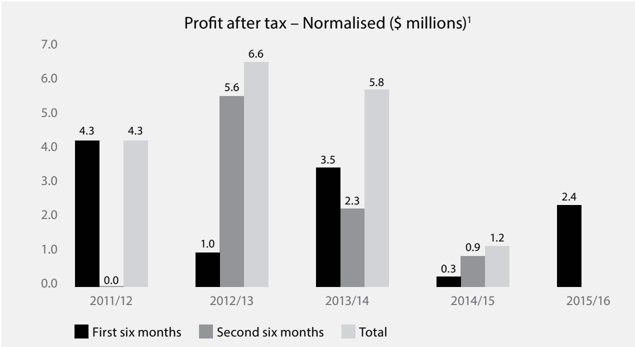
for the six months ended 31 December 2015 (Unaudited)

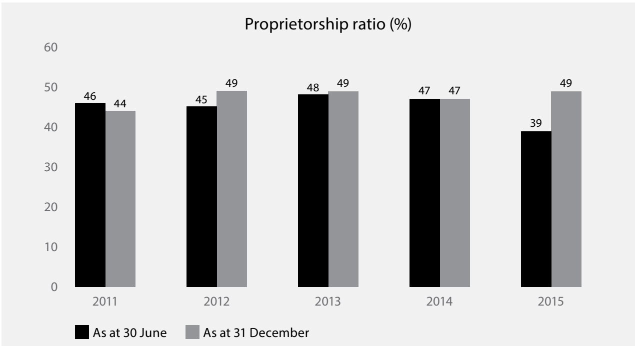
	Unaudited Six months ended 31 Dec 2015 $000	Unaudited Six months ended 31 Dec 2014 $000	Audited Year ended 30 June 2015 $000
Revenue	**$98,422**	$103,722	$215,728
EBITDA (normalised) [1]	**6,093**	5,113	8,517
Depreciation	**(1,825)**	(2,932)	(5,862)
EBIT (normalised) [1]	**4,268**	2,181	2,655
Net interest expense	**(1,961)**	(1,919)	(3,948)
Share of profit after tax of equity-accounted investee (normalised) [1]	**985**	138	2,034
Profit before tax (normalised) [1]	**3,292**	400	741
Tax (expense)/benefit	**(876)**	(73)	454
Profit after tax (normalised) [1]	**2,416**	327	1,195
Abnormal gains/(losses) after tax [1]	**1,099**	(295)	(26,910)
Profit/(Loss) after tax (GAAP)	**$3,515**	$32	$(25,715)
Net cash flow from operating activities	**$5,661**	$12	$5,387
Basic and diluted earnings per share (cents) – based on weighted average number of shares outstanding of 68,679,098			
Normalised [1]	**3.5**	–	1.7
GAAP	**5.1**	–	–
Return on average shareholders' equity (%)			
Normalised [1]	**3.5%**	–	1.5%
GAAP	**5.2%**	–	–

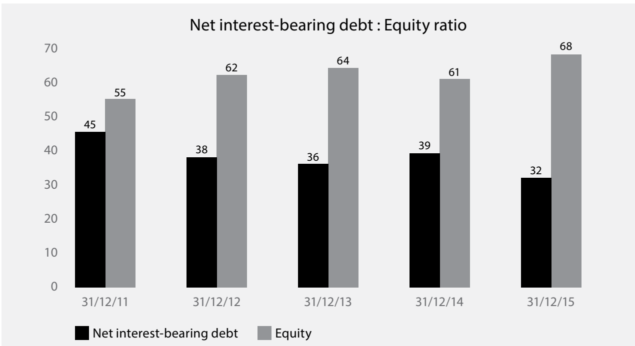
	Unaudited As at 31 Dec 2015	Unaudited As at 31 Dec 2014	Audited As at 30 June 2015
Net tangible asset backing per share ($)	**$0.99**	$1.22	$0.93
Proprietorship ratio (%)	**49.1%**	47.1%	39.1%
Net interest-bearing debt to equity ratio	**32:68**	39:61	45:55

[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 GAAP and normalised earnings together with further commentary on the disclosure of non-GAAP financial information are set out at pages 21 to 23 of the half year report.

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 GAAP and normalised earnings together with further commentary on the disclosure of non-GAAP financial information are set out at pages 21 to 23 of the half year report.

DIRECTORS' REPORT

For the six months ended 31 December 2015

The Directors of Cavalier Corporation present their report, including financial statements, for the period to 31 December 2015.

FINANCIAL PERFORMANCE

Six months ended 31 December (Unaudited)

	2015 $000s	2014 $000s	% change
Revenue	**$98,422**	$103,722	**(5)**
EBIT (Normalised) [1]	**4,268**	2,181	**96**
Net interest expense	**(1,961)**	(1,919)	**2**
Share of equity-accounted investee profit (Normalised after tax) [1]	**985**	138	**614**
Profit before tax (Normalised) [1]	**3,292**	400	**723**
Income tax	**(876)**	(73)	**1,100**
Profit after tax (Normalised) [1]	**2,416**	327	**639**
Restructuring costs	**(936)**	(295)	
Gain on disposal of property, plant and equipment	**2,035**	–	
Profit after tax (GAAP)	**$3,515**	$32	
Earnings per share (cents) (Normalised) [1]	**3.5**	0.0	
Earnings per share (cents) (GAAP)	**5.1**	0.0	

[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 GAAP and normalised earnings together with further commentary on the disclosure of non-GAAP financial information are set out at pages 21 to 23 of the half year report.

The Directors of Cavalier Corporation Limited announce a profit after tax of $3.5 million for the six months ended 31 December 2015, compared with $32,000 in the same period last year. Revenue dropped $5.3 million/5% as a result of the sale of the tile business, offset by increases in revenue in broadloom, wool and yarn.

On a normalised basis (which excludes the one-off gain from the sale of the Sydney premises and restructuring costs), profit after tax is $2.4 million compared with $0.3m in the same period last year.

Both the carpet and wool businesses were ahead of last year, with the improved performance by carpet due largely to the sale of the loss-making tile division in August 2015.

The Directors note that underlying conditions – particularly, the continuing high wool price and NZD:AUD exchange rate – remain challenging.

DIRECTORS' REPORT (continued)

FINANCIAL POSITION

During the first six months, there was a significant improvement in the financial position of Cavalier. As reported last year and at the Annual Meeting, trading results were not able to support the level of bank debt the company was carrying and priority was given to debt reduction. As a result, net bank debt has reduced by a significant $26.3 million (45%) from the same time last year ($21.2 million in the last six months).

Equity as at 31 December 2015 was $70.3 million and represented 49% of the total assets of the Group, compared with $91.9 million and 47% respectively in 2014.

The decision to write-down the value of assets that were considered impaired (most relating to the carpet business) at June is why total equity is much less than it was a year ago.

Total assets reduced by $26.0 million in the last six months, reflecting the sale of the Sydney premises and the exit from the tile business.

CASH FLOWS

Net cash flows from operating activities for the first six months were $5.7 million, compared with $12,000 last year, largely as a result of the cash released from working capital following the sale of the tile business.

During the period, there was a modest $892,000 of capital expenditure compared with $1.7 million in the previous comparable period.

Cash generated in the six months were applied towards the repayment of bank debt.

SEGMENT REVIEWS

Carpet Business

With the sale of our carpet tile manufacturing operation in Australia in August 2015, the carpet business now comprises broadloom carpets sold mainly in New Zealand and Australia and with a small volume to other international markets.

For the six months ended December 2015, the carpet business produced a total revenue of $78.6 million, 12% down on the previous comparable period's $88.8 million. This is due to reduced revenue from the sale of the tile business, offset by broadloom gains.

The carpet business result before depreciation and extraordinary items (asset sales and restructuring costs) at $5.5 million is a $572,000/12% improvement on a year ago.

The broadloom business had a slow first quarter, but finished the second on a much stronger note with total sales volume 3% up on the previous year. We achieved volume improvements from the prior year in all segments of the market except for the highly-competitive entry-level sector in Australia. In the second quarter, we made the decision to lift prices to reflect rising costs of wool, synthetic yarns and other imported raw materials (due in part to the increased strength of the USD).

DIRECTORS' REPORT (continued)

In addition to price increases, the restructuring that was undertaken earlier in the year has started to generate cost savings and increased profitability.

In the last six months, we have:

- exited the non-performing Australian tile manufacturing business
- outsourced Australian warehousing and logistics and sold the Sydney premises
- appointed a new International General Manager for the rest of world market (outside of New Zealand and Australia)
- restructured the administration and sales functions in New Zealand

For the next six months, we anticipate:

- appointment of a new Australian General Manager
- introduction of a fully integrated sales, marketing and product development programme
- introduction of new innovative products to the broadloom business
- further productivity gains

Wool Business

The wool business comprises our wool buying business, Elco Direct, and a 50% interest in commission woolscourer, Cavalier Wool Holdings Limited (CWH).

Elco Direct has been a consistent performer over the last few years and had a very good six months. Both volume and margins are up on the same period last year. Elco Direct profit at $790,000 is a $376,000/91% improvement on the $414,000 produced in the previous comparable six months.

CWH's half year result is also an improvement on last year and Cavalier's share of tax-paid earnings, at $724,000, is significantly up on the $157,000 loss made a year ago.

CWH's volume increased on the previous comparable period and wool grease prices also showed some improvement, although still well below the highs experienced a couple of years ago. The result would have been better if it were not for the costs it has had to incur with the lengthy Commerce Commission and appeal process associated with its proposed scouring business merger with New Zealand Wool Services International Limited. The High Court appeal is set for early April and we will keep shareholders informed of developments.

Yarn Business

The Radford Yarn business is our Christchurch based manufacturer of premium felted wool yarns for the carpet business and rug manufacturers in North America and Europe.

In the last couple of years, there has been good demand for felted products given its unique qualities. Volume and revenue are both up on the previous year at slightly better margins, resulting in a profit of $542,000, compared with $386,000 last year – a 40% improvement.

DIRECTORS' REPORT (continued)

EARNINGS OUTLOOK

At the Annual Meeting in November, we gave shareholders a normalised profit after tax guidance in the range of $3.0 to $5.0 million.

Looking forward to the end of the year, we expect some pressure on the New Zealand economy with softening commodity prices and a dip in market confidence. The Australian market remains tough, particularly in the price-driven commodity end of the market, and we do not see that improving in the short term.

Wool grease prices have dipped slightly in the last couple of months which may impact CWH's profitability.

However, given the solid first half result, we now expect normalised profit after tax to be at the upper end of the $3.0 to 5.0 million range for the year ending 30 June 2016.

DIVIDENDS

As indicated at the Annual Meeting, as soon as we are in a position to confirm a sustained improvement in the underlying performance of our core business and have our debt firmly under control, we will resume dividend payments. While the results in the first six months indicate we are on the right track, the Board is not declaring an interim dividend payment at this stage.

Sarah Haydon
Chair

Graeme Hawkins
Director

19 February 2016

INDEPENDENT REVIEW REPORT

KPMG

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 8 to 20 which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six months ended on that date, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the shareholders of Cavalier Corporation Limited as a body. Our review work has been undertaken so that we might state to the shareholders of Cavalier Corporation Limited those matters we are required to state to them in the independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders of Cavalier Corporation Limited as a body, for our review work, this report or any of the conclusions we have formed.

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 Reportin*g 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 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 condensed consolidated 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 those 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 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.

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 2015, and of its financial performance and its cash flows for the six months ended on that date, in accordance with NZ IAS 34 *Interim Financial Reporting*.

KPMG.

19 February 2016, Auckland

CONDENSED CONSOLIDATED INCOME STATEMENT

Six months ended 31 December 2015 (Unaudited)

	Notes	**Unaudited Six months ended 31 Dec 2015 $000**	Unaudited Six months ended 31 Dec 2014 $000
Revenue	3	**98,422**	103,722
Cost of sales		**(76,555)**	(78,988)
Gross profit		**21,867**	24,734
Other income and gains/(losses)	4	**4,327**	(2)
Distribution expenses		**(14,413)**	(18,218)
Administration expenses		**(3,200)**	(4,333)
Restructuring costs		**(969)**	–
Results from operating activities		**7,612**	2,181
Net finance costs		**(1,961)**	(1,919)
Share of profit/(loss) of equity-accounted investee (net of tax)		**724**	(157)
Profit before tax	5	**6,375**	105
Tax expense		**(2,860)**	(73)
Profit after tax for the period		**$3,515**	$32
Profit after tax attributable to:			
Shareholders of Cavalier Corporation Limited		**3,515**	32
Non-controlling interests		**–**	–
Profit after tax for the period		**$3,515**	$32
Basic and diluted earnings per share (cents)		**5.1**	–
Weighted average number of shares outstanding during the period (000s)		**68,679**	68,679

This statement is to be read in conjunction with the Notes on pages 14 to 20 and the previous year's annual financial statements

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 31 December 2015 (Unaudited)

	Unaudited Six months ended 31 Dec 2015 $000	Unaudited Six months ended 31 Dec 2014 $000
Profit after tax for the period	**3,515**	32
Other comprehensive income that may be reclassified subsequently to profit or loss		
Effective portion of changes in fair value of cash flow hedges	**1,095**	473
Net change in fair value of cash flow hedges transferred to profit or loss	**(156)**	(1,097)
Foreign currency translation differences for foreign operations	**(89)**	(665)
Tax on other comprehensive income	**(263)**	172
	587	(1,117)
Other comprehensive income not reclassified subsequently to profit or loss	**–**	–
Other comprehensive income for the period, net of tax	**587**	(1,117)
Total comprehensive income for the period	**$4,102**	$(1,085)
Total comprehensive income attributable to:		
Shareholders of Cavalier Corporation Limited	**4,102**	(1,085)
Non-controlling interests	**–**	–
Total comprehensive income for the period	**$4,102**	$(1,085)

This statement is to be read in conjunction with the Notes on pages 14 to 20 and the previous year's annual financial statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 31 December 2015 (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	**$21,846**	**$(1,171)**	**$(1,285)**	**$1,448**	**$45,346**	**$66,184**
Total comprehensive income for the period						
Profit after tax	–	–	–	–	3,515	3,515
Other comprehensive income that may be reclassified subsequently to profit or loss						
Changes in fair value of cash flow hedges (net of tax)	–	676	–	–	–	676
Foreign currency translation differences for foreign operations	–	–	(89)	–	–	(89)
	–	676	(89)	–	–	587
Other comprehensive income not reclassified subsequently to profit or loss	–	–	–	–	–	–
Total other comprehensive income	–	676	(89)	–	–	587
Total comprehensive income for the period	–	676	(89)	–	3,515	4,102
Transactions with owners, recorded directly in equity	–	–	–	–	–	–
Total equity at end of the period	**$21,846**	**$(495)**	**$(1,374)**	**$1,448**	**$48,861**	**$70,286**

This statement is to be read in conjunction with the Notes on pages 14 to 20 and the previous year's annual financial statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

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 14 to 20 and the previous year's annual financial statements

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	Unaudited 31 Dec 2015 $000	Audited 30 June 2015 $000
ASSETS		
Property, plant and equipment	**39,539**	47,910
Intangible assets	**2,362**	2,362
Investment in equity-accounted investee	**22,411**	24,937
Deferred tax asset	**1,265**	1,388
Total non-current assets	**65,577**	76,597
Cash and cash equivalents	**2,550**	2,834
Trade receivables, other receivables and prepayments	**21,370**	30,218
Inventories	**51,761**	49,847
Derivative financial instruments	**1,080**	1,363
Tax receivable	**767**	1,238
Assets held for disposal	**–**	7,029
Total current assets	**77,528**	92,529
Total assets	**$143,105**	$169,126
EQUITY		
Share capital	**21,846**	21,846
Cash flow hedging reserve	**(495)**	(1,171)
Foreign currency translation reserve	**(1,374)**	(1,285)
Share rights reserve	**1,448**	1,448
Retained earnings	**48,861**	45,346
Total equity attributable to equity holders of the Company	**70,286**	66,184
LIABILITIES		
Loans and borrowings	**35,251**	45,000
Employee benefits	**1,603**	1,626
Deferred income	**126**	157
Provisions	**2,849**	3,155
Total non-current liabilities	**39,829**	49,938
Loans and borrowings	**–**	11,767
Trade creditors and accruals	**24,071**	24,326
Provisions	**1,717**	1,445
Employee entitlements	**3,451**	4,533
Amount payable to non-controlling interests	**–**	91
Deferred income	**67**	67
Derivative financial instruments	**1,406**	2,322
Tax payable	**2,278**	–
Liabilities held for disposal	**–**	8,453
Total current liabilities	**32,990**	53,004
Total liabilities	**72,819**	102,942
Total equity and liabilities	**$143,105**	$169,126

This statement is to be read in conjunction with the Notes on pages 14 to 20 and the previous year's annual financial statements

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 31 December 2015 (Unaudited)

	Notes	**Unaudited Six months ended 31 Dec 2015 $000**	Unaudited Six months ended 31 Dec 2014 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		**106,288**	103,361
Cash paid to suppliers and employees		**(99,356)**	(100,853)
		6,932	2,508
Dividends received		**2**	2
Other receipts		**12**	12
GST refunded/(paid)		**860**	(70)
Interest paid		**(1,897)**	(1,705)
Income tax paid		**(248)**	(735)
Net cash flow from operating activities	6	**5,661**	12
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		**11,355**	127
Proceeds from sale of Ontera tile business		**1,798**	–
Acquisition of property, plant and equipment		**(892)**	(1,713)
Purchase consideration of non-controlling interests		**(91)**	–
Dividends received from equity-accounted investee		**3,250**	1,250
Net cash flow from investing activities		**15,420**	(336)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase/(Decrease) in bank loans and borrowings		**(21,245)**	538
Decrease in other loans and borrowings		**–**	–
Dividends paid to equity holders of the Company		**–**	–
Shares issued		**–**	–
Net cash flow from financing activities		**(21,245)**	538
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(164)**	214
Cash and cash equivalents at beginning of the period		**2,834**	2,375
Effect of exchange rate changes on cash		**(120)**	(65)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		**$2,550**	$2,524

This statement is to be read in conjunction with the Notes on pages 14 to 20 and the previous year's annual financial statements

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 31 December 2015

1. GENERAL

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

The Company is registered under the Companies Act 1993 and is an FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013 ("FMCA 2013").

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 Elco Direct wool procurement business and the Radford Yarn Technologies operation.

All subsidiaries in the Group are wholly-owned.

The Group sold the assets and liabilities relating to the Sydney-based Ontera tile manufacturing operation during the period, allowing it to exit manufacturing in Australia, while retaining the ability to continue to import and sell tiles.

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 19 February 2016.

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 2014, are unaudited. The comparative information as at 30 June 2015 is audited.

2. ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim financial statements are consistent with those adopted in the preparation of the annual financial statements for the year ended 30 June 2015. 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 2015 $000	Six months ended 31 Dec 2014 $000
3. REVENUE		
Sales of goods	**98,321**	103,249
Provision of installation services	**101**	473
Total revenue	**$98,422**	$103,722
4. OTHER INCOME AND GAINS/LOSSES		
Rentals received	**12**	12
Dividends received	**2**	2
Net gain/(loss) on disposal of property, plant and equipment	**4,313**	(16)
Total other income and gains/(losses)	**$4,327**	$(2)
5. EXPENSES		
Profit before tax includes the following:		
Depreciation	**$1,825**	$2,932
Operating lease and rental costs	**$2,077**	$3,001

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. CASH FLOW RECONCILIATION

	Six months ended 31 Dec 2015 $000	Six months ended 31 Dec 2014 $000
Profit after tax for the period	**3,515**	32
Add/(Deduct) non-cash and other items:		
Depreciation	**1,825**	2,932
Share of (profit)/loss of equity-accounted investee	**(724)**	157
Deferred government grants	**–**	(163)
Deferred tax asset	**(139)**	(648)
Employee benefits	**(23)**	(123)
Deferred income	**(31)**	(34)
Provisions	**(34)**	(393)
Net (gain)/loss on sale of property, plant and equipment	**(4,313)**	16
Net (gain)/loss on foreign currency balance	**83**	(3)
Changes in working capital items:		
Trade and other receivables and prepayments	**8,616**	797
Inventories	**(2,238)**	(770)
Tax receivable/payable	**2,751**	–
Trade creditors and accruals	**(3,932)**	(1,137)
Derivative financial instruments	**305**	(637)
Net cash flow from operating activities	**$5,661**	$12

		As at 31 Dec 2015 $000	As at 30 June 2015 $000
7.	**CAPITAL EXPENDITURE COMMITMENTS**		
	Capital expenditure commitments	**–**	–
8.	**CONTINGENT LIABILITIES**		
	Bank guarantees in respect of operating leases and other commitments	**$1,297**	$1,757

9. 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 2015 was $370,000 (six months ended 31 December 2014 $407,000).

Dividends totaling $3,250,000 were received from CWH during the six months ended 31 December 2015 (six months ended 31 December 2014 $1,250,000).

10. 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)

10. SEGMENT REPORTING (continued)

Unaudited	CARPETS Six months ended 31 Dec 2015 $000	CARPETS Six months ended 31 Dec 2014 $000
External revenue	**78,594**	88,844
Inter-segment revenue	**–**	–
Total revenue	**$78,594**	$88,844
Elimination of inter-segment revenue		
Consolidated revenue		
Segment result before depreciation, restructuring costs and gain on sale of property	**5,455**	4,883
Depreciation	**(1,613)**	(2,728)
Segment result before restructuring costs and gain on sale of property	**3,842**	2,155
Restructuring costs	**(969)**	–
Gain on sale of property	**4,313**	–
Segment result after restructuring costs and gain on sale of property	**7,186**	2,155
Elimination of inter-segment profits		
Unallocated corporate costs		
Results from operating activities		
Net finance costs		
Share of profit/(loss) of equity-accounted investee (net of tax)		
Profit before tax		
Tax expense		
Profit after tax for the period		
Employee numbers		
Operations	**486**	657
Unallocated		
Total		
Capital expenditure	**816**	1,391

	CARPETS Unaudited As at 31 Dec 2015 $000	CARPETS Audited As at 30 Jun 2015 $000
Reportable segment assets	**107,800**	132,685
Investment in equity-accounted investee		
Total assets		
Reportable segment liabilities	**32,641**	43,222
Unallocated liabilities		
Total liabilities		

WOOL ACQUISITION		OTHER		TOTAL	
Six months ended 31 Dec 2015 $000	Six months ended 31 Dec 2014 $000	Six months ended 31 Dec 2015 $000	Six months ended 31 Dec 2014 $000	Six months ended 31 Dec 2015 $000	Six months ended 31 Dec 2014 $000
17,659	13,267	2,169	1,611	98,422	103,722
4,314	3,525	2,717	2,774	7,031	6,299
$21,973	$16,792	$4,886	$4,385	105,453	110,021
				(7,031)	(6,299)
				$98,422	$103,722
790	414	542	386	6,787	5,683
(54)	(63)	(158)	(141)	(1,825)	(2,932)
736	351	384	245	4,962	2,751
–	–	–	–	(969)	–
–	–	–	–	4,313	–
736	351	384	245	8,306	2,751
				(44)	180
				(650)	(750)
				7,612	2,181
				(1,961)	(1,919)
				724	(157)
				6,375	105
				(2,860)	(73)
				$3,515	$32
32	31	36	36	554	724
				4	5
				558	729
76	39	–	283	$892	$1,713

WOOL ACQUISITION		OTHER		TOTAL	
Unaudited As at 31 Dec 2015 $000	Audited As at 30 Jun 2015 $000	Unaudited As at 31 Dec 2015 $000	Audited As at 30 Jun 2015 $000	Unaudited As at 31 Dec 2015 $000	Audited As at 30 Jun 2015 $000
4,870	3,663	8,024	7,841	120,694	144,189
				22,411	24,937
				$143,105	$169,126
4,272	2,663	655	290	37,568	46,175
				35,251	56,767
				$72,819	$102,942

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. 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 2015 $000	Six months ended 31 Dec 2014 $000
Revenue		
New Zealand	**51,803**	44,400
Australia	**42,108**	55,900
Rest of the world	**4,511**	3,422
	$98,422	$103,722

	As at 31 Dec 2015 $000	As at 30 June 2015 $000
Non-current assets		
New Zealand	**63,210**	66,938
Australia	**2,367**	9,659
	$65,577	$76,597

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 2015

The half year report for the six months ended 31 December 2015 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, the non-GAAP measures of financial performance such as "*EBITDA (normalised)*", "*EBIT (normalised)*", "*Profit before tax (normalised)*" and "Profit after tax (normalised)" provide useful information to investors regarding the performance of the Group because the calculations exclude restructuring costs and other gains/losses (for example, gain on sale of property) that are not expected to occur on a regular basis either by virtue of quantum or nature.

In arriving at this view, the Directors have also taken cognisance of the regular requests by users of the Group financial statements, including analysts and shareholders, regarding the nature and quantum of 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 Chief Executive Officer as its chief operating decision maker, and provides what the Directors and management believe gives a more meaningful insight into the underlying financial performance of the Group and a better understanding of how the Group is tracking after taking into account 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 GAAP-compliant to non GAAP-compliant measures of profit/loss after tax

	Six months ended 31 Dec 2015		
	GAAP $000	Reversals $000	Normalised $000
Revenue	$98,422	–	$98,422
EBITDA	9,437	(3,344)[1]	6,093
Depreciation	(1,825)	–	(1,825)
EBIT	7,612	(3,344)	4,268
Net interest expense	(1,961)	–	(1,961)
Share of profit after tax of equity-accounted investee	724	261[2]	985
Profit before tax	6,375	(3,083)	3,292
Tax (expense)/benefit	(2,860)	1,984[3]	(876)
Profit after tax	$3,515	(1,099)	2,416
Abnormal gains/(losses) after tax		1,099	1,099
Profit after tax (GAAP)		–	$3,515

[1, 2, 3] Refer to Analysis of reversals on page 23.

Analysis of reversals

	Profit/(Loss) before tax $000	Tax effect $000	Profit/(Loss) after tax $000
Restructuring costs	(969)	294	(675)
Gain on sale of property	4,313	(2,278)	2,035
Total [1, 3]	$3,344	$(1,984)	$1,360
Scour merger costs [2]	$(261)	–	$(261)

	GAAP-compliant profit/(loss) after tax ($000)	Reverse abnormal gains/(losses) after tax ($000)	Normalised profit after tax ($000)
Six months ended 31 December 2015			
Profit/(Loss) attributable to shareholders	$3,515	$(1,099)	$2,416
Six months ended 30 June 2015			
Profit/(Loss) attributable to shareholders	$(25,747)	$26,615	$868
Six months ended 31 December 2014			
Profit/(Loss) attributable to shareholders	$32	$295	$327
Six months ended 30 June 2014			
Profit/(Loss) attributable to shareholders	$2,343	–	$2,343
Six months ended 31 December 2013			
Profit/(Loss) attributable to shareholders	$3,447	–	$3,447
Six months ended 30 June 2013			
Profit/(Loss) attributable to shareholders	$1,591	$4,021	$5,612
Six months ended 31 December 2012			
Profit/(Loss) attributable to shareholders	$1,439	$(427)	$1,012
Six months ended 30 June 2012			
Profit/(Loss) attributable to shareholders	$(5,180)	$5,184	$4
Six months ended 31 December 2011			
Profit/(Loss) attributable to shareholders	$3,547	$732	$4,279

CORPORATE DIRECTORY

BOARD OF DIRECTORS:

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

CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER:

Paul Alston BBS, CA

COMPANY SECRETARY:

Victor Tan CA, FCIS

FOUNDING SHAREHOLDER:

The late **Anthony Charles Timpson** ONZM

REGISTERED OFFICE:

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

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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.normanellison.co.nz, www.normanellison.com.au
Yarn Operation	– www.radfordyarn.com
Wool Operations	– www.elcodirect.co.nz, www.cavalierwoolscourers.co.nz
Share Registrar	– www.computershare.co.nz/investorcentre

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