CAVALIER
CORPORATION

# Half Year Report for the six months ended 31 December 2016

## Contents


1 Financial Summary

2 Directors' Report

6 Independent Review Report

8 Condensed Consolidated Income Statement

9 Condensed Consolidated Statement of Comprehensive Income

10 Condensed Consolidated Statement of Changes in Equity

12 Condensed Consolidated Statement of Financial Position

13 Condensed Consolidated Statement of Cash Flows

15 Notes to the Financial Statements

22 Disclosure of Non-GAAP Financial Information

24 Corporate Directory

# Financial Summary

For the six months ended 31 December 2016 (Unaudited)

| | Unaudited Six months ended 31 Dec 2016 $000 | Unaudited Six months ended 31 Dec 2015 $000 | Audited Year ended 30 June 2016 $000 |
|---|---|---|---|
| **Revenue** | **$84,278** | **$98,422** | **$190,371** |
| EBITDA (normalised)[1] | 497 | 6,093 | 12,275 |
| Depreciation | (1,680) | (1,825) | (3,352) |
| EBIT (normalised)[1] | (1,183) | 4,268 | 8,923 |
| Net interest expense | (1,489) | (1,961) | (3,374) |
| Share of profit after tax of equity-accounted investee (normalised)[1] | 88 | 985 | 2,670 |
| Profit/(loss) before tax (normalised)[1] | (2,584) | 3,292 | 8,219 |
| Tax (expense)/credit | 708 | (876) | (1,906) |
| **Profit/(loss) after tax (normalised)[1]** | **(1,876)** | **2,416** | **6,313** |
| Abnormal net gains/(losses) after tax[1] | 1,907 | 1,099 | (3,198) |
| **Profit after tax (GAAP)** | **$31** | **$3,515** | **$3,115** |
| **Net cash flow from operating activities** | **$(4,789)** | **$5,661** | **$1,904** |
| **Basic and diluted earnings per share (cents)** – based on weighted average number of shares outstanding of 68,679,098 | | | |
| Normalised[1] | (2.7) | 3.5 | 9.2 |
| GAAP | – | 5.1 | 4.5 |
| **Return on average shareholders' equity (%)** | | | |
| Normalised[1] | (2.7)% | 3.5% | 9.3% |
| GAAP | – | 5.2% | 4.6% |

| | Unaudited As at 31 Dec 2016 | Unaudited As at 31 Dec 2015 | Audited As at 30 June 2016 |
|---|---|---|---|
| **Net tangible asset backing per share ($)** | **$0.95** | **$0.97** | **$0.92** |
| **Equity to total assets (%)** | **49.5%** | **49.1%** | **47.1%** |
| **Net interest-bearing debt to equity ratio** | **38:62** | **32:68** | **34:66** |

[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 22 and 23 of the Half Year Report.

# Directors' Report

For the six months ended 31 December 2016

The Directors of Cavalier Corporation present their report, including financial statements, for the period to 31 December 2016.

## FINANCIAL PERFORMANCE

| Six months ended 31 December Unaudited | 2016 $000 | 2015 $000 |
|---|---|---|
| **Revenue** | **$84,278** | **$98,422** |
| **EBITDA (normalised)[1]** | **(1,183)** | **4,268** |
| Net interest expense | (1,489) | (1,961) |
| Share of equity-accounted investee profit (normalised after tax)[1] | 88 | 985 |
| **Profit/(loss) before tax (normalised)[1]** | **(2,584)** | **3,292** |
| Income tax | 708 | (876) |
| **Profit/(loss) after tax (normalised)[1]** | **(1,876)** | **2,416** |
| Restructuring costs and reversal of impairment of fixed assets | (1,833) | (936) |
| Net gain on merger of equity-accounted investee | 3,740 | 0 |
| Gain on disposal of property, plant and equipment | 0 | 2,035 |
| **Profit after tax (GAAP)** | **$31** | **$3,515** |
| **Earnings per share (cents) (normalised)[1]** | **(2.7)** | **3.5** |
| **Earnings per share (cents) (GAAP)** | **0.0** | **5.1** |

[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 22 and 23 of the Half Year Report.

Last year's focus was debt reduction, inventory rationalisation and the restructuring of administration and sales functions. Our focus in recent months has been significant investment in the core business by consolidating manufacturing activities and re-invigorating the Cavalier Bremworth brand.

The short term cost of these essential reinvestment activities has impacted the current half year results, however they will progressively and significantly benefit the Company going forward. Other market factors such as increased wool price and the stronger USD have also adversely impacted the first half results.

The Group reports a break-even position for the half year (compared with $3.5m in 2015/16). Adjusting for the abnormal gain from the scour merger of $3.7m and transitional costs relating to the consolidation of Cavalier's wool spinning operation of $1.8m, the normalised loss for the first six months is $1.9m compared with a normalised gain of $2.4m last financial year.

## FINANCIAL POSITION

The increase in net bank debt of $5.9m since the year-end reflects $6.0m of restructuring costs and $2.1m capital gains tax payment resulting from the sale of the Sydney warehouse in the last financial year. With these large one-off costs now behind us, debt will once again start to fall. In January, the Company received a dividend of $3.25m from Cavalier Wool Holdings Ltd (CWH) as a result of the scour merger, which has reduced debt.

In the last six months, management has improved the Company's inventory profile and reduced inventory by $8.5m. This has been achieved while it was also manufacturing the additional inventory required to support new products in the market.

Total assets and equity have remained in line with previous year-end.

## CASH FLOWS

Net cash outflows from operations were $4.8m for the first six months, reflecting the large costs associated with the consolidation of manufacturing and the capital gains tax payment referred to above.

## SEGMENT REVIEWS

### Carpet Business

The sale of the Ontera carpet tile business in 2015/16 and the associated carpet tile revenue forgone is the main driver of the fall in revenue.

The NZ market has remained reasonably buoyant, however Australia has been much softer than anticipated particularly in the last two months. We are working hard with our retailers to stimulate sales.

We have now closed our Christchurch plant and moved the felting operation to Wanganui. Woollen yarn spinning is now conducted entirely out of the Napier plant. We acknowledge the management and staff of these operations for making this happen.

The carpet segment result for the first six months has been affected by a number of factors including:

- Significant restructuring costs associated with the consolidation of spinning operations;
- Higher wool price compared with the previous year;
- Higher USD impacting negatively on cost of synthetic yarn purchases; and
- Increased marketing costs in respect of the new Cavalier Bremworth World of Difference marketing campaign.

All of the above factors that have negatively impacted the six months (and the full year forecast) will either not repeat or have turned in our favour, with the benefits to come through in 2017/18. The significant gains from consolidating our manufacturing operations will also be progressively realised in the 2017/18 year.

Because there is about a six month lag between the purchase of wool and the manufacture and sale of carpet, we will not see the benefit from the current drop in wool price until 2017/18. Conversely, the high wool price that prevailed in the previous year is adversely impacting current profitability.

## Wool Business

Our wool business comprises our wool buying operation, Elco Direct, and a 27.5% interest in the enlarged CWH wool scouring business post its merger with the wool scouring operations of New Zealand Wool Services International Ltd (NZWSI). This is to be compared with the 50% we held previously in a smaller pre-merger entity.

This year, both our wool-related businesses have been adversely impacted by the dramatic drop in wool price which has caught many in the industry by surprise and is due almost entirely to a lack of demand out of China.

Elco Direct, like many wool traders and exporters, had to exit stocks in a falling market and this impacted negatively on margins. The current price of wool is very low and growers are reluctant to sell at these levels. As a result, the flow of wool has abated significantly, with a high percentage of wool passed in at auction. Elco Direct has had three very strong years, but profits are down in the last six months reflecting the current challenging operating environment. Once demand returns and wool price stabilises, Elco Direct will be in a better position to buy and sell wool at a consistent margin.

After over two years of Court proceedings, the merger of CWH with the wool scouring operations of NZWSI was finally approved by the Court of Appeal in December. The purpose of the merger is to safeguard the wool scouring industry in New Zealand and our reduced share in a much bigger entity will be beneficial for the Company in the long term.

For the first six months, volume through the scour is considerably down on that for the same period last year. The total wool clip has not changed dramatically, but at current low prices, growers and exporters are holding off committing to selling and scouring wool. We are confident that the wool will eventually come on to market and be scoured once pricing and demand settle at their new levels.

The consolidation of the scouring businesses is expected to take a year to complete. In the short term, CWH will experience some inefficiencies while equipment is being moved and reconfigured.

## EARNINGS OUTLOOK

The Directors reiterate that their forecast for 2016/17 remains unchanged. We expect the result for 2016/17 to be close to breakeven on a normalised tax-paid basis.

2016/17 is a year of investment in the long term future of the Company, and we remain confident that the benefits of the work done this year together with changes in the macro environment will flow through into improved results.

## DIVIDENDS

The Directors have previously advised that as soon as we are in a position to confirm an ongoing improvement in underlying performance and we have our debt firmly under control, we will resume dividend payments. While good progress has been made, we are not there yet. The NZD:AUD exchange rate and the weakness in the Australian economy remain a concern to Cavalier as an exporter. As a consequence, no dividend is being paid at this time.

For and on behalf of the Board of Directors:

S E F Haydon
Chairman

S R Bootten
Director

16 February 2017

# 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 ("Group") on pages 8 to 21 which comprise the consolidated statement of financial position as at 31 December 2016, 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 Group's shareholders 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 Group's shareholders 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 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 financial statements are not prepared, in all material respects, in accordance with NZ IAS 34 *Interim Financial Reporting*. As the auditor of Cavalier Corporation Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of the 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 transfer pricing tax advice and scrutineering at the Group's Annual Meeting of shareholders. 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 Cavalier Corporation Limited do not present fairly, in all material respects, the financial position of the Group as at 31 December 2016, 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.

16 February 2017

Auckland

## Condensed Consolidated Income Statement

Six months ended 31 December 2016 (Unaudited)

| | Notes | Unaudited Six months ended 31 Dec 2016 $000 | Unaudited Six months ended 31 Dec 2015 $000 |
|---|---|---|---|
| Revenue | 5 | 84,278 | 98,422 |
| Cost of sales | | (67,951) | (76,555) |
| **Gross profit** | | **16,327** | **21,867** |
| Other income and gains | 6 | 16 | 4,327 |
| Distribution expenses | | (13,978) | (14,413) |
| Administration expenses | | (3,547) | (3,200) |
| Restructuring costs | | (3,989) | (969) |
| Reversal of impairment of fixed assets | | 1,442 | – |
| **Results from operating activities** | | **(3,729)** | **7,612** |
| Net finance costs | | (1,489) | (1,961) |
| Share of profit of equity-accounted investee (net of tax) | 4 | 65 | 724 |
| Gain on merger and dilution of equity-accounted investee | 4 | 3,763 | – |
| **Profit/(loss) before tax** | 7 | **(1,390)** | **6,375** |
| Tax (expense)/credit | | 1,421 | (2,860) |
| **Profit after tax for the period** | | **$31** | **$3,515** |
| **Profit after tax attributable to:** | | | |
| Shareholders of Cavalier Corporation Limited | | 31 | 3,515 |
| Non-controlling interests | | – | – |
| **Profit after tax for the period** | | **$31** | **$3,515** |
| **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 15 to 21 and the previous year's annual financial statements.

## Condensed Consolidated Statement of Comprehensive Income

Six months ended 31 December 2016 (Unaudited)

| | Note | Unaudited Six months ended 31 Dec 2016 $000 | Unaudited Six months ended 31 Dec 2015 $000 |
|---|---|---|---|
| **Profit after tax for the period** | | **31** | **3,515** |
| **Other comprehensive income that may be reclassified subsequently to profit or loss** | | | |
| Effective portion of changes in fair value of cash flow hedges | | 846 | 1,095 |
| Net change in fair value of cash flow hedges transferred to profit or loss | | 121 | (156) |
| Tax on other comprehensive income | | (271) | (263) |
| Share of fair value of cash flow hedges (net of tax) of equity-accounted investee | 4 | (82) | – |
| Foreign currency translation differences for foreign operations | | (27) | (89) |
| | | **587** | **587** |
| **Other comprehensive income not reclassified subsequently to profit or loss** | | **–** | **–** |
| **Other comprehensive income for the period, net of tax** | | **587** | **587** |
| **Total comprehensive income for the period** | | **$618** | **$4,102** |
| **Total comprehensive income attributable to:** | | | |
| Shareholders of Cavalier Corporation Limited | | 618 | 4,102 |
| Non-controlling interests | | – | – |
| **Total comprehensive income for the period** | | **$618** | **$4,102** |

This statement is to be read in conjunction with the Notes on pages 15 to 21 and the previous year's annual financial statements.

## Condensed Consolidated Statement of Changes in Equity

Six months ended 31 December 2016 (Unaudited)

| | Share Capital $000 | Cash Flow Hedging Reserve $000 | Foreign Currency Translation Reserve $000 | Retained Earnings $000 | Total Equity $000 |
|---|---|---|---|---|---|
| **Total equity at beginning of the period** | **21,846** | **(969)** | **(1,425)** | **49,909** | **69,361** |
| ***Total comprehensive income for the period*** | | | | | |
| **Profit after tax** | – | – | – | 31 | 31 |
| **Other comprehensive income that may be reclassified subsequently to profit or loss** | | | | | |
| Changes in fair value of cash flow hedges (net of tax) | – | 696 | – | – | 696 |
| Share of fair value of cash flow hedges (net of tax) of equity-accounted investee | – | (82) | – | – | (82) |
| Foreign currency translation differences for foreign operations | – | – | (27) | – | (27) |
| | **–** | **614** | **(27)** | **–** | **587** |
| **Other comprehensive income not reclassified subsequently to profit or loss** | **–** | **–** | **–** | **–** | **–** |
| **Total other comprehensive income** | **–** | **614** | **(27)** | **–** | **587** |
| **Total comprehensive income for the period** | **–** | **614** | **(27)** | **31** | **618** |
| **Transactions with owners, recorded directly in equity** | **–** | **–** | **–** | **–** | **–** |
| **Total equity at end of the period** | **$21,846** | **$(355)** | **$(1,452)** | **$49,940** | **$69,979** |

This statement is to be read in conjunction with the Notes on pages 15 to 21 and the previous year's annual financial statements.

## **Condensed Consolidated Statement of Changes in Equity** (continued)

Six months ended 31 December 2015 (Unaudited)

| | Share Capital $000 | Cash Flow Hedging Reserve $000 | Foreign Currency Translation Reserve $000 | Share Rights Resdrve $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 15 to 21 and the previous year's annual financial statements.

# Condensed Consolidated Statement of Financial Position

As at 31 December 2016 (Unaudited)

| | Note | Unaudited 31 Dec 2016 $000 | Audited 30 June 2016 $000 |
|---|---|---|---|
| **ASSETS** | | | |
| Property, plant and equipment | | 37,705 | 36,820 |
| Intangible assets | | 2,362 | 2,362 |
| Investment in equity-accounted investees | 4 | 23,671 | 23,175 |
| Deferred tax asset | | 2,236 | 3,496 |
| **Total non-current assets** | | **65,974** | **65,853** |
| Cash and cash equivalents | | 689 | 1,200 |
| Trade receivables, other receivables and prepayments | | 19,189 | 21,723 |
| Receivable from equity-accounted investee | 4 | 3,250 | – |
| Inventories | | 49,204 | 57,733 |
| Derivative financial instruments | | 754 | 867 |
| Tax receivable | | 2,446 | – |
| **Total current assets** | | **75,532** | **81,523** |
| **Total assets** | | **$141,506** | **$147,376** |
| **EQUITY** | | | |
| Share capital | | 21,846 | 21,846 |
| Cash flow hedging reserve | | (355) | (969) |
| Foreign currency translation reserve | | (1,452) | (1,425) |
| Retained earnings | | 49,940 | 49,909 |
| **Total equity attributable to equity holders of the Company** | | **69,979** | **69,361** |
| **LIABILITIES** | | | |
| Loans and borrowings | 7 | 43,050 | 37,700 |
| Employee benefits | | 1,261 | 1,237 |
| Deferred income | | 55 | 84 |
| Provisions | | 2,845 | 3,140 |
| **Total non-current liabilities** | | **47,211** | **42,161** |
| Trade creditors and accruals | | 17,774 | 22,779 |
| Provisions | | 2,068 | 4,060 |
| Employee entitlements | | 3,345 | 4,370 |
| Deferred income | | 67 | 67 |
| Derivative financial instruments | | 1,062 | 2,132 |
| Tax payable | | – | 2,446 |
| **Total current liabilities** | | **24,316** | **35,854** |
| **Total liabilities** | | **71,527** | **78,015** |
| **Total equity and liabilities** | | **$141,506** | **$147,376** |

This statement is to be read in conjunction with the Notes on pages 15 to 21 and the previous year's annual financial statements.

## Condensed Consolidated Statement of Cash Flows

Six months ended 31 December 2016 (Unaudited)

| | Unaudited Six months ended 31 Dec 2016 $000 | Unaudited Six months ended 31 Dec 2015 $000 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Receipts from customers | 86,336 | 106,288 |
| Payments to suppliers and employees | (87,590) | (99,356) |
| Dividends received | 1 | 2 |
| Other receipts | 12 | 12 |
| GST refunded | 376 | 860 |
| Interest paid | (1,442) | (1,897) |
| Income tax paid | (2,482) | (248) |
| **Net cash flow from operating activities** | **(4,789)** | **5,661** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from sale of property, plant and equipment | 56 | 11,355 |
| Proceeds from sale of Ontera tile business | – | 1,798 |
| Acquisition of property, plant and equipment | (1,176) | (892) |
| Purchase consideration of non-controlling interests | – | (91) |
| Dividends received from equity-accounted investee | – | 3,250 |
| **Net cash flow from investing activities** | **(1,120)** | **15,420** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Increase/(decrease) in bank loans and borrowings | 5,350 | (21,245) |
| **Net cash flow from financing activities** | **5,350** | **(21,245)** |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | **(559)** | **(164)** |
| Cash and cash equivalents at beginning of the period | 1,200 | 2,834 |
| Effect of exchange rate changes on cash | 48 | (120) |
| **CASH AND CASH EQUIVALENTS AT END OF THE PERIOD** | **$689** | **$2,550** |

This statement is to be read in conjunction with the Notes on pages 15 to 21 and the previous year's annual financial statements.

## **Condensed Consolidated Statement of Cash Flows** (continued)

Six months ended 31 December 2016 (Unaudited)

| | Six months ended 31 Dec 2016 $000 | Six months ended 31 Dec 2015 $000 |
|---|---|---|
| **RECONCILIATION OF PROFIT WITH NET CASH FLOW FROM OPERATING ACTIVITIES** | | |
| **Profit after tax for the period** | **31** | **3,515** |
| **Add/(Deduct) non-cash and other items:** | | |
| Depreciation | 1,680 | 1,825 |
| Share of profit of equity-accounted investee | (65) | (724) |
| Gain on merger and dilution of equity-accounted investee | (3,763) | – |
| Reversal of impairment of fixed assets | (1,442) | – |
| Deferred tax asset | 989 | (139) |
| Employee benefits | 24 | (23) |
| Deferred income | (29) | (31) |
| Provisions | (2,212) | (34) |
| Net gain on sale of property, plant and equipment | (3) | (4,313) |
| Net (gain)/loss on foreign currency balance | (45) | 83 |
| **Changes in working capital items:** | | |
| Trade and other receivables and prepayments | 2,460 | 8,616 |
| Inventories | 8,529 | (2,238) |
| Tax receivable/payable | (4,892) | 2,751 |
| Trade creditors and accruals | (6,061) | (3,932) |
| Derivative financial instruments | 10 | 305 |
| **Net cash flow from operating activities** | **$(4,789)** | **$5,661** |

This statement is to be read in conjunction with the Notes on pages 15 to 21 and the previous year's annual financial statements.

# Notes to the Financial Statements

For the six months ended 31 December 2016

## 1. GENERAL

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

The financial statements presented are for Cavalier and its subsidiaries ("the Group") and the Group's investment in equity-accounted investees as at, and for the six months ended, 31 December 2016.

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

The principal activities of the Group comprise carpet sales and manufacturing and wool procurement. Following the consolidation of the Group's yarn spinning operations during the period ended 31 December 2016, the Radford Yarn Technologies operation is now treated as a part of the carpet business and is accordingly reported under the carpets segment.

All Group subsidiaries are wholly-owned.

The Group also has a 27.5% interest in commission woolscourer, Cavalier Wool Holdings Limited, and a 50% interest in asset-owning entity, CWS Assets Limited.

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 16 February 2017.

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 2015, are unaudited. The comparative information as at 30 June 2016 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 2016. The interim financial statements should therefore be read in conjunction with those annual financial statements and the accounting policies set out therein.

## Notes to the Financial Statements (continued)

For the six months ended 31 December 2016

### 3. SEGMENT PERFORMANCE

| Unaudited | Carpets | | Wool Acquisition | |
|---|---|---|---|---|
| | Six months ended 31 Dec 2016 $000 | Six months ended 31 Dec 2015 Restated $000 | Six months ended 31 Dec 2016 $000 | Six months ended 31 Dec 2015 $000 |
| External revenue | 71,238 | 80,763 | 13,040 | 17,659 |
| Inter-segment revenue | – | – | 2,530 | 4,314 |
| **Total revenue** | **$71,238** | **$80,763** | **$15,570** | **$21,973** |
| Elimination of inter-segment revenue | | | | |
| **Consolidated revenue** | | | | |
| Segment result before depreciation, restructuring costs and gain on sale of property | 954 | 5,997 | 344 | 790 |
| Depreciation | (1,620) | (1,771) | (60) | (54) |
| **Segment result before restructuring costs and gain on sale of property** | **(666)** | **4,226** | **284** | **736** |
| Restructuring costs | (3,989) | (969) | – | – |
| Gain on sale of property | – | 4,313 | – | – |
| Reversal of impairment of fixed assets | 1,442 | – | – | – |
| **Segment result after restructuring costs** | **(3,213)** | **7,570** | **284** | **736** |
| 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) | | | | |
| Gain on merger and dilution of equity-accounted investee | | | | |
| Profit/(Loss) before tax | | | | |
| Tax (expense)/credit | | | | |
| **Profit after tax for the period** | | | | |
| **Employee numbers** | | | | |
| Operations | 480 | 522 | 29 | 32 |
| Unallocated | | | | |
| Total | | | | |
| **Capital expenditure** | **1,052** | **816** | **124** | **76** |

| Total | |
|---|---|
| Six months ended 31 Dec 2016 $000 | Six months ended 31 Dec 2015 Restated $000 |
| 84,278 | 98,422 |
| 2,530 | 4,314 |
| **86,808** | **102,736** |
| (2,530) | (4,314) |
| **$84,278** | **$98,422** |
| | |
| 1,298 | 6,787 |
| (1,680) | (1,825) |
| | |
| **(382)** | **4,962** |
| (3,989) | (969) |
| – | 4,313 |
| 1,442 | – |
| **(2,929)** | **8,306** |
| – | (44) |
| (800) | (650) |
| **(3,729)** | **7,612** |
| (1,489) | (1,961) |
| 65 | 724 |
| 3,763 | – |
| (1,390) | 6,375 |
| 1,421 | (2,860) |
| **$31** | **$3,515** |
| | |
| 509 | 554 |
| 4 | 4 |
| **513** | **558** |
| | |
| **$1,176** | **$892** |

## Notes to the Financial Statements (continued)

For the six months ended 31 December 2016

### 3. SEGMENT PERFORMANCE (continued)

| | Carpets | | Wool Acquisition | |
|---|---|---|---|---|
| | Unaudited As at 31 Dec 2016 $000 | Audited As at 31 June 2016 Restated $000 | Unaudited As at 31 Dec 2016 $000 | Audited As at 30 June 2016 $000 |
| Reportable segment assets | 115,052 | 120,229 | 2,783 | 3,972 |
| Investment in equity-accounted investees | | | | |
| **Total assets** | | | | |
| Reportable segment liabilities | 26,672 | 37,450 | 1,805 | 2,865 |
| Unallocated liabilities | | | | |
| **Total liabilities** | | | | |

The Group's reportable segments are:

- carpets, which comprises the sales and manufacturing of carpets and the felted yarn spinning activities previously reported under Radford Yarn Technologies (hence the comparatives are marked as "Restated" where relevant); and
- wool acquisition.

**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 2016 $000 | Six months ended 31 Dec 2015 $000 |
|---|---|---|
| **Revenue** | | |
| New Zealand | 47,138 | 51,803 |
| Australia | 32,392 | 42,108 |
| Rest of the world | 4,748 | 4,511 |
| | **$84,278** | **$98,422** |

| | As at 31 Dec 2016 $000 | As at 30 June 2016 $000 |
|---|---|---|
| **Non-current assets** | | |
| New Zealand | 63,623 | 63,421 |
| Australia | 2,351 | 2,432 |
| | **$65,974** | **$65,853** |

**Information about major customers**

None of the Group's customers are major customers as defined in NZ IFRS 8 *Operating Segments*. 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.

| | Total | |
|---|---|---|
| | **Unaudited As at 31 Dec 2016** | **Audited As at 30 June 2016** |
| | **$000** | **$000** |
| | 117,835 | 124,201 |
| | 23,671 | 23,175 |
| | **$141,506** | **$147,376** |
| | 28,477 | 40,315 |
| | 43,050 | 37,700 |
| | **$71,527** | **$78,015** |

## Notes to the Financial Statements (continued)

For the six months ended 31 December 2016

### 4. EQUITY-ACCOUNTED INVESTEES

The Group's equity-accounted investee, Cavalier Wool Holdings Limited (CWH), acquired Whakatu Wool Scour Limited and Kaputone Wool Scour (1994) Limited from New Zealand Wool Services International Limited (NZWSI) effective 31 December 2016 as part of the merger of CWH and the woolscouring operations of NZWSI. Part of the consideration for the purchase of the two entities involved the issue of new shares by CWH to NZWSI, diluting the Group's interest in CWH from 50% to 27.5% as at that date.

In accounting for the dilution of the Group's interest in CWH as at 31 December 2016, the Group recognised a gain of $3,763,000, being the difference between the carrying amount of the investment in CWH immediately before and after the merger transaction that led to the dilution of its interest in CWH.

CWH declared, in the lead-up to the effective date of the merger, a cash dividend of $6.5 million which was paid on 20 January 2017. The Group's share of this dividend of $3.25 million was recorded as a receivable from equity-accounted investee at balance date.

CWH also declared, at the same time, a distribution in specie of shares with a fair value of $3.4 million in CWS Assets Limited (CWSA) to the CWH shareholders, effectively reducing the carrying value of the Group's investment in CWH by $1.7 million while increasing the carrying value of the Group's investment in CWSA by the same amount.

The details relating to the Group's interest in equity-accounted investees are set out below:

| | Six months ended 31 Dec 2016 $000 | Six months ended 31 Dec 2015 $000 |
|---|---|---|
| Carrying value as at 1 July | 23,175 | 24,937 |
| Share of profit after tax | 65 | 724 |
| Share of changes in fair value of cash flow hedges (net of tax) | (82) | – |
| Dividends received | (3,250) | (3,250) |
| Dividend in specie received | (1,700) | – |
| Carrying value of CWSA | 1,700 | – |
| Gain on merger and dilution | 3,763 | – |
| **Carrying value as at 31 December** | **$23,671** | **$22,411** |

### 5. REVENUE

| | Six months ended 31 Dec 2016 $000 | Six months ended 31 Dec 2015 $000 |
|---|---|---|
| Sales of goods | 84,132 | 98,321 |
| Provision of installation services | 146 | 101 |
| **Total revenue** | **$84,278** | **$98,422** |

## Notes to the Financial Statements (continued)

For the six months ended 31 December 2016

### 6. OTHER INCOME AND GAINS

| | Six months ended 31 Dec 2016 $000 | Six months ended 31 Dec 2015 $000 |
|---|---|---|
| Rentals received | 12 | 12 |
| Dividends received | 1 | 2 |
| Net gain on disposal of property, plant and equipment | 3 | 4,313 |
| **Total other income and gains** | **$16** | **$4,327** |

### 7. LOANS AND BORROWINGS

It is the considered view of the Directors that no material uncertainty exists in the Group's ability to deliver on its profit improvement programme. The realisation of gains expected from the Group's reinvestment in the core business has taken longer than expected and consequently, the Company revised its banking covenants to reflect this.

### 8. EXPENSES

**Profit/(Loss) before tax includes the following:**

| | Six months ended 31 Dec 2016 $000 | Six months ended 31 Dec 2015 $000 |
|---|---|---|
| Depreciation | 1,680 | 1,825 |
| Operating lease and rental costs | 1,916 | 2,077 |

### 9. CAPITAL EXPENDITURE COMMITMENTS

| | As at 31 Dec 2016 $000 | As at 30 June 2016 $000 |
|---|---|---|
| Capital expenditure commitments | – | 12 |

### 10. CONTINGENT LIABILITIES

| | As at 31 Dec 2016 $000 | As at 30 June 2016 $000 |
|---|---|---|
| Bank guarantees in respect of operating leases and other commitments | 1,347 | 1,335 |

### 11. RELATED PARTY TRANSACTIONS

**Equity-accounted investee**

Cavalier Wool Holdings Limited (CWH), the Group's equity-accounted investee, provides the Group's 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 2016 was $249,000 (six months ended 31 December 2015 $370,000).

Dividends declared by CWH during the six months ended 31 December 2016 are disclosed in Note 4. Dividends totaling $3,250,000 were received from CWH during the six months ended 31 December 2015.

## Disclosure of Non-GAAP Financial Information

For the six months ended 31 December 2016

The Half Year Report for the six months ended 31 December 2016 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.

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

## **Disclosure of Non-GAAP Financial Information** (continued)

For the six months ended 31 December 2016

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

| | Six months ended 31 Dec 2016 | | |
|---|---|---|---|
| | GAAP $000 | Adjustments $000 | Normalised $000 |
| **Revenue** | **$84,278** | **–** | **$84,278** |
| EBITDA | (2,049) | 2,546 | 497 |
| Depreciation | (1,680) | – | (1,680) |
| EBIT | (3,729) | 2,546 | (1,183) |
| Net interest expense | (1,489) | – | (1,489) |
| Share of profit after tax of equity-accounted investee | 65 | 23 | 88 |
| Gain on merger and dilution of equity-accounted investee | 3,763 | (3,763) | – |
| Loss before tax | (1,390) | (1,194) | (2,584) |
| Tax credit | 1,421 | (713) | 708 |
| **Profit/(Loss) after tax** | **$31** | (1,907) | (1,876) |
| Abnormal net gains after tax | | 1,907 | 1,907 |
| **Profit after tax (GAAP)** | | **–** | **$31** |

### Analysis of adjustments

| | Profit/(Loss) before tax $000 | Tax effect $000 | Profit/(Loss) after tax $000 |
|---|---|---|---|
| Restructuring costs | (3,988) | 1,117 | (2,871) |
| Reversal of impairment of fixed assets | 1,442 | (404) | 1,038 |
| Scour merger costs | (23) | – | (23) |
| Gain on merger and dilution of equity-accounted investee | 3,763 | – | 3,763 |
| **Net** | **$1,194** | **$713** | **$1,907** |

### Analysis of adjustments

| | Six months ended 31 Dec 2015 | | |
|---|---|---|---|
| | Profit/(Loss) before tax $000 | Tax effect $000 | Profit/(Loss) after tax $000 |
| Restructuring costs | (969) | 294 | (675) |
| Scour merger costs | (261) | – | (261) |
| Gain on sale of property | 4,313 | (2,278) | 2,035 |
| **Net** | **$3,083** | **$(1,984)** | **$1,099** |

## Corporate Directory

### Board of Directors:

| | |
|---|---|
| **Grant Biel** B.E. (Mech.)<br>*Non-independent* | Member of Audit, Remuneration and Nomination Committees |
| **Steve Bootten** ACA, FCIS, FCIM, MInstD<br>*Independent* | Chairman of Audit Committee<br>Member of Remuneration and Nomination Committees |
| **Sarah Haydon** B.Sc., FCA, CMInstD<br>*Independent* | Chairman of the Board of Directors<br>Chairman of Nomination Committee<br>Member of Audit and Remuneration Committees |
| **Dianne McAteer** B.Com., MBA, CMInstD<br>*Independent* | Member of Audit, Remuneration and Nomination Committees |
| **John Rae** B.Com., LLB, CMInstD<br>*Independent* | Deputy Chairman of the Board of Directors<br>Chairman of Remuneration Committee<br>Member of Audit and Nomination Committees |

### Chief Executive Officer:

**Paul Alston** BBS, CA

### Company Secretary:

**Victor Tan** CA, FCIS

### Founding Shareholder:

The late **Anthony Charles Timpson** ONZM

### Registered Office:

7 Grayson Avenue, Auckland 2014, P O Box 97-040, Auckland 2241.
Telephone: 64-9-277 6000, Facsimile: 64-9-279 4756

### Share Registrar:

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road, Auckland 0622, 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:

Russell McVeagh

**Bankers:**

| | |
|---|---|
| Bank of New Zealand | National Australia Bank Limited |

**Websites:**

| | |
|---|---|
| Corporate | www.cavcorp.co.nz |
| Carpet Operation | www.cavbrem.co.nz, www.cavbrem.com.au,<br>www.normanellison.co.nz, www.normanellison.com.au<br>www.radfordyarn.com |
| Wool Operation | www.elcodirect.co.nz |
| Share Registrar | www.computershare.co.nz/investorcentre |

CAVALIER

CORPORATION