



Bremworth

HALF YEAR REPORT

For the six months ended
31 December 2020

CAVALIER
CORPORATION

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Cavalier Corporation Limited and subsidiary companies

FY21 First Half (1H21) At A Glance

- Commenced Group strategy to become a design-led wool and natural materials interior solutions business and launched new Bremworth brand
- Good progress being made on strategic initiatives:
 - Expanded retailer distribution networks in New Zealand and Australia
 - Right sized organisational structure in response to exit from synthetic carpets
 - Commenced wind down of manufacturing and sell down of synthetic carpets with progress faster than expected
 - Rollout of Lifestyle (affordable wool) collection ranges and other uniquely designed products
- Shareholder approval and settlement of Auckland property sale and leaseback, with proceeds to fund transformation strategy
- Strong improvement in net profit after tax to \$4.3 million (1H20: NLAT \$(1.2) million), comprising \$3.0 million improvement in underlying business performance and \$2.5 million net gain on sale and leaseback of Auckland property
- Small decline in revenue to \$60.3m, however generating improving margins from woollen carpet sales
- Normalised EBITDA of \$4.8m, up 61% on 1H20 and at the upper end of December 2020 guidance
- Repayment of all borrowings during the period, with a significant cash surplus of \$26.3 million as at 31 December 2020

Cavalier Corporation Limited and subsidiary companies

Financial Summary - for the six months ended 31 December 2020 (Unaudited)

	Unaudited Six months ended 31 December 2020 \$000	Unaudited Six months ended 31 December 2019 \$000	Audited Year ended 30 June 2020 \$000
Revenue	\$60,299	\$64,384	\$117,981
EBITDA (normalised) ¹	4,764	2,951	2,300
Depreciation – owned assets	(1,136)	(1,700)	(2,683)
Depreciation – right-of-use assets	(65)	(945)	(1,779)
EBIT (normalised) ¹	3,563	306	(2,162)
Net finance costs	(540)	(1,055)	(2,535)
Profit/(Loss) before tax (normalised) ¹	3,023	(749)	(4,697)
Tax (expense)/credit	(873)	183	1,240
Profit/(Loss) after tax (normalised) ¹	2,150	(566)	(3,457)
Abnormal net gain/(loss) after tax ¹	2,122	(588)	(17,994)
Profit/(Loss) after tax (GAAP)	\$4,272	\$(1,154)	\$(21,451)
Net cash flow from operating activities	\$17,545	\$1,999	\$6,773
Basic and diluted earnings per share (cents) – based on weighted average number of shares outstanding of 68,679,098			
Normalised ¹	3.1	(0.8)	(5.0)
GAAP	6.2	(1.7)	(31.2)
Return on average shareholders' equity (%)			
Normalised ¹	6.0%	(1.0)%	(7.8)%
GAAP	11.9%	(2.1)%	(48.4)%
	Unaudited As at 31 December 2020	Unaudited As at 31 December 2019	Audited As at 30 June 2020
Net tangible asset backing per share (\$)	\$0.40	\$0.59	\$0.47
Equity to total assets (%)	47.6%	53.2%	48.1%
Net interest-bearing debt to equity ratio	Not applicable	25:75	30:70

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 23 to 25 of the half year report.

Cavalier Corporation Limited and subsidiary companies

Half Year Review

Chair and CEO Commentary

Cavalier's strategy to become a global leader in designing and creating desirable, safe, sustainable and high performing natural interior solutions was unveiled in July 2020 and implementation is now well underway.

Good progress has been made on strategic initiatives as we look to grow the demand for woollen flooring, expand our market presence and build our market share.

In particular, during 1H21, we commenced the wind down of synthetic carpet manufacturing and right-sized the organisation in response to the change in manufacturing requirements, with Auckland manufacturing downsized and increased capacity at our Napier and Whanganui plants.

The exit from the synthetic carpet business is well-advanced and the sell down of the existing synthetic stock has been faster than anticipated and at better prices. With limited stock remaining, we expect this to be completed before the end of FY21.

Other initiatives have been progressed including the expansion of the retailer distribution networks in New Zealand and Australia, and the rollout of Lifestyle (affordable wool) collection ranges and other uniquely designed products.

The rebranding of the carpet business to Bremworth was completed in November 2020. This signals our determination to build on our heritage as a leading designer and manufacturer of premium wool carpets and rugs, while evolving to meet consumer trends and become a more sustainable business.

We have commenced our journey to deliver desirable, safe, sustainable and high performing natural interior solutions. The average Kiwi home carpeted in synthetics (whether that be nylon, polypropylene and polyester, all of which are thermoplastics) is similar to having 22,000 plastic bags on the floor, and our exit from synthetics equates to a reduction of 2.5 million kg of synthetic yarn consumption per annum.

We are also actively removing single use plastics from the business and seeking new ways to reduce or remove plastic from our products, our business and our daily lives. Our wool carpets are already made with 87% natural materials and we will invest in scientific research to identify solutions to make our products 100% sustainable. We believe this will benefit our business, our communities and the planet.

Our Opportunity

Consumers are becoming more aware of the long term dangers of plastic and its impact on our planet and our health. More and more consumers are choosing products that benefit their personal health and wellbeing and reduce their ecological impact. Cavalier is well placed to take advantage of changes, being one of the most innovative woollen carpet manufacturers in the world.

The strong wool industry is in a state of crisis, with shearing costs now more than returns from wool. Farmers are considering alternative uses for their land and different breeds of sheep to avoid shearing. Supporters of the New Zealand rural sector are becoming more aware of the dire state of the wool industry, along with growing awareness of the dangers of plastic. With a large proportion of strong wool destined for flooring applications, Bremworth is leading the industry in promoting wool and its benefits. This is a cause worth supporting.

We believe there is a need to dispel the myths around synthetic carpet performance and rebuild awareness of the benefits of wool ... 'the forgotten miracle fibre'. In the last 12 months, we have seen escalating awareness and positive media coverage of the wool sector and we are glad to be leading efforts to promote the true story.

There is a significant opportunity to expand our presence in our markets. Our products are sold through retailers and while we have good coverage across New Zealand with some scope to expand, our retailer network in Australia is a significant growth opportunity. Our goal is to provide access to our Bremworth products in at least 300 more stores in Australia, and we have added a number of new retailers during 1H21 already. We also see an opportunity to increase the sale of our woollen carpets and, eventually, natural fibre products outside of Australasia. To that end, we have secured funding from NZ Trade and Enterprise to assist with expansion in the USA.

While woollen carpets are our primary focus and where our expertise lies, we also see longer term opportunities to expand into adjacent natural interior products and solutions.

Financial Performance

Cavalier has reported a strong uplift in profitability for the six-month period, driven by higher-than-anticipated woollen carpet sales, the sell down of synthetic carpets and gain from the Auckland property sale and leaseback.

Revenue was down 6% to \$60.3 million, with \$2.4 million of the reduction coming from the Bremworth carpet business and \$1.7 million from the Elco Direct wool acquisition business.

Revenue of the carpet business was down 4% for the period, mainly due to a decrease in volume from the wind-down of the synthetic carpet business offset by improved selling prices from stronger trading conditions and a stronger product mix towards wool.

While total New Zealand carpet sales volumes (wool and synthetic) were unchanged on last year, the volume and revenue from woollen carpet sales were up 14% and 27% respectively, with a pleasing improvement in margins.

Total Australian carpet sales volumes were down 21% on last year, due to a combination of stock shortages caused by shipping delays, port strikes and COVID lockdown activity.

Elco Direct delivered a 12% increase in sales volumes, however, the average selling price was well down due to subdued offshore demand for New Zealand wool, with sales revenue of \$6.0 million for the period.

Earnings before interest, tax, depreciation and amortisation (EBITDA) was \$6.2 million, with normalised EBITDA of \$4.8 million at the upper end of the December 2020 guidance range and up 61% on the previous year's equivalent of \$3.0 million as the Group benefited from the improving trading conditions in the carpet business.

Cavalier Corporation Limited and subsidiary companies

Half Year Review (continued)

Chair and CEO Commentary (continued)

Net profit after tax improved strongly to \$4.3 million compared with the previous year's (1H20) net loss after tax of \$(1.2) million. This much-improved result was due largely to better underlying business performance of \$3.0 million and a net gain on sale and leaseback of the Auckland property of \$2.5 million.

Stocks have continued to reduce, with the reduction coming from synthetic stocks as the Group works to exit that segment of the carpet business.

The stronger trading in 1H21, the settlement of the sale and leaseback of the Auckland property and the sell-down of synthetic carpet stocks enabled the Group to fully repay bank debt and put it in a significant cash surplus position of \$26.3 million at balance date.

Prudent capital management remains a priority, and the Board will continue to consider other capital raising options to further strengthen the Group's balance sheet if required. The Company is investing into its growth strategy and no interim dividend has been declared for the six-month period.

Outlook

The Board expects the Group's migration to more natural, sustainable and healthier products to gather momentum as it works to grow the wool flooring market while also growing share of that market by expanding Bremworth's presence through product innovation and retail footprint expansion.

The successful sale and leaseback of the Auckland property has provided Cavalier with the financial resources to continue its strategic transformation, as well as additional liquidity and funding in the current uncertain operating environment.

Priorities for the second half of FY21 (2H21) are in line with Cavalier's growth strategy and are as follows:

- Launching the new Bremworth marketing campaign
- Continuing to rollout Bremworth Lifestyle (affordable wool) collection ranges
- Continuing to expand our retailer networks, particularly in Australia
- Maintaining focus on innovation and the launch of new beautifully designed carpets
- Operational improvements including initiatives to reduce the cost base and mitigate supply chain disruptions.

The new Bremworth marketing campaign will be launched in 2H21 with a corresponding increase in marketing spend. The launch of the campaign will be timed to coincide with increasing stock levels in Australia as supply chain constraints are resolved. As previously announced, there will be a lag between the FY21 investment in marketing and growth in sales.

While it is still too early, and the operating environment remains uncertain, for the Directors to be providing shareholders with an earnings guidance for FY21, shareholders should note that earnings for the rest of this financial year will not track what the Group has achieved in 1H21.

This is partly due to the increased marketing spends in 2H21 as we invest in the transformation as outlined earlier. At the same time, sales volumes in 2H21 will be significantly down on 1H21, with the bulk of the synthetic carpet stock having already been sold in 1H21 and sale of woollen carpet in Australia likely continuing to be impacted by disruptions to the supply chain.

This is consistent with what the Directors have previously advised:

- Total sales revenue for FY21 will reduce as Cavalier exits its non-wool carpet business and as a consequence of COVID-19
- Investment costs, including restructuring of its operations, will be incurred as the business adjusts its manufacturing and sales base to reflect a wool only focus, with these costs also inclusive of new retail display stands to expand market presence
- Marketing spends and people costs will increase as Cavalier will be investing in a number of initiatives to enhance its market presence and ensure its strategy is successfully communicated
- As Cavalier's strategy bears fruit and sales of higher margin, higher value woollen carpets replace and eclipse the previous synthetic carpet sales, this will be reflected in Cavalier's financial performance, with growing revenues expected from FY23 and FY24 onwards as the business builds woollen carpet sales and as the economy recovers from COVID-19
- The full benefits from the transformation are expected from FY25 onwards.

There are indications of positive economic growth in both New Zealand and Australia which will benefit Bremworth sales. New Zealand woollen carpet sales volumes for FY21 are expected to be well up on prior year, with Australian woollen carpet sales volumes also expected to improve when current disruptions to the supply chain are resolved. Recent initiatives, particularly in Australia, to expand the retailer networks, are expected to help drive a lift in sales once supply improves.

Cavalier has a strong platform from which to continue its transformation journey, with a clear strategy, zero debt, a right sized organisational footprint and an experienced team.

For and on behalf of the Board of Directors:



George Adams
Chairman



Paul Alston
Chief Executive Officer

24 February 2021

Cavalier Corporation Limited and subsidiary companies

Condensed Consolidated Income Statement

Six months ended 31 December 2020 (Unaudited)	Note	Unaudited Six months ended 31 December 2020 \$000	Unaudited Six months ended 31 December 2019 \$000
Revenue	4	60,299	64,384
Cost of sales		(42,268)	(49,150)
Gross profit		18,031	15,234
Other income and gains	5	2,531	5
Distribution expenses		(10,248)	(10,965)
Administration expenses		(4,240)	(3,968)
Restructuring and transformation costs		(1,117)	(816)
Result from operating activities		4,957	(510)
Net finance costs	6	(540)	(1,055)
Profit/(Loss) before tax		4,417	(1,565)
Tax (expense)/credit		(145)	411
Profit/(Loss) after tax for the period		\$4,272	\$(1,154)
Basic and diluted earnings per share (cents)		6.2	(1.7)
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 22 and the previous year's annual financial statements.

Cavalier Corporation Limited and subsidiary companies

Condensed Consolidated Statement of Comprehensive Income

Six months ended 31 December 2020 (Unaudited)	Note	Unaudited Six months ended 31 December 2020 \$000	Unaudited Six months ended 31 December 2019 \$000
Profit/(Loss) after tax for the period		4,272	(1,154)
Other comprehensive income that may be reclassified subsequently to profit or loss			
Effective portion of changes in fair value of cash flow hedges		503	355
Net change in fair value of cash flow hedges transferred to profit or loss		(105)	(316)
Tax on other comprehensive income		(47)	(11)
		<u>351</u>	<u>28</u>
Total comprehensive income for the period		<u>\$4,623</u>	<u>\$(1,126)</u>

This statement is to be read in conjunction with the Notes on pages 14 to 22 and the previous year's annual financial statements.

Cavalier Corporation Limited and subsidiary companies

Condensed Consolidated Statement of Changes in Equity

Six months ended 31 December 2020 (Unaudited)	Note	Share Capital	Cash Flow Hedging Reserve	Foreign Currency Translation Reserve	Share-based Payment Reserve	Retained Earnings	Total Equity
		\$000	\$000	\$000	\$000	\$000	\$000
Total equity at 1 July 2020		21,846	(120)	(1,420)	-	13,331	33,637
<i>Total comprehensive income for the period</i>							
Profit after tax		-	-	-	-	4,272	4,272
Other comprehensive income that may be reclassified subsequently to profit or loss							
Changes in fair value of cash flow hedges (net of tax)		-	351	-	-	-	351
Total comprehensive income for the period		-	351	-	-	4,272	4,623
<i>Transactions with owners of the Company</i>							
Equity-settled share-based payment	8	-	-	-	5	-	5
Total equity at 31 December 2020		\$21,846	\$231	\$(1,420)	\$5	\$17,603	\$38,265

This statement is to be read in conjunction with the Notes on pages 14 to 22 and the previous year's annual financial statements.

Cavalier Corporation Limited and subsidiary companies

Condensed Consolidated Statement of Changes in Equity (continued)

Six months ended 31 December 2019 (Unaudited)	Note	Share Capital	Cash Flow Hedging Reserve	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
		\$000	\$000	\$000	\$000	\$000
Total equity at 1 July 2019		21,846	(219)	(1,420)	34,782	54,989
<i>Total comprehensive income for the period</i>						
Loss after tax		-	-	-	(1,154)	(1,154)
Other comprehensive income that may be reclassified subsequently to profit or loss						
Changes in fair value of cash flow hedges (net of tax)		-	28	-	-	28
Total comprehensive income for the period		-	28	-	(1,154)	(1,126)
Total equity at 31 December 2019		\$21,846	\$(191)	\$(1,420)	\$33,628	\$53,863

This statement is to be read in conjunction with the Notes on pages 14 to 22 and the previous year's annual financial statements.

Cavalier Corporation Limited and subsidiary companies

Condensed Consolidated Statement of Financial Position

As at 31 December 2020 (Unaudited)	Note	Unaudited 31 December 2020 \$000	Audited 30 June 2020 \$000
ASSETS			
Property, plant and equipment - owned	9	10,817	22,725
Property, plant and equipment - right-of-use	9	10,239	430
Deferred tax asset		448	600
Total non-current assets		21,504	23,755
Cash and cash equivalents	7	26,263	1,276
Trade receivables, other receivables and prepayments		8,375	12,607
Inventories	11	23,680	32,081
Derivative financial instruments		262	160
Income tax receivable		274	102
Total current assets		58,854	46,226
Total assets		\$80,358	\$69,981
EQUITY			
Share capital		21,846	21,846
Cash flow hedging reserve		231	(120)
Foreign currency translation reserve		(1,420)	(1,420)
Share-based payment reserve	8	5	-
Retained earnings		17,603	13,331
Total equity attributable to equity holders of the Company		38,265	33,637
LIABILITIES			
Lease liabilities		20,465	2,224
Employee benefits		905	888
Provisions		614	584
Total non-current liabilities		21,984	3,696
Loans and borrowings	7	-	15,800
Trade payables and accruals		12,919	10,617
Employee entitlements		4,213	3,444
Lease liabilities		2,038	1,345
Provisions		910	710
Derivative financial instruments		29	732
Total current liabilities		20,109	32,648
Total liabilities		42,093	36,344
Total equity and liabilities		\$80,358	\$69,981

This statement is to be read in conjunction with the Notes on pages 14 to 22 and the previous year's annual financial statements.

Cavalier Corporation Limited and subsidiary companies

Condensed Consolidated Statement of Cash Flows

Six months ended 31 December 2020 (Unaudited)	Note	Unaudited Six months ended 31 December 2020 \$000	Unaudited Six months ended 31 December 2019 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		64,071	64,984
Cash paid to suppliers and employees		(45,640)	(61,614)
Dividends received		1	1
Other receipts		2	2
GST (paid)/refunded		(67)	(130)
Interest paid – lease liabilities		(118)	(294)
Interest paid – loans and borrowings		(491)	(758)
Income tax (paid)/refunded		(213)	(192)
Net cash flow from operating activities		17,545	1,999
CASH FLOWS FROM INVESTING ACTIVITIES			
Net proceeds from sale of plant and equipment		18	2
Net proceeds from sale and leaseback of property	9	5,717	-
Acquisition of plant and equipment		(1,103)	(1,306)
Net cash flow from investing activities		4,632	(1,304)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of principal relating to lease liabilities		(690)	(713)
Lease liability assumed on sale and leaseback of property	9	19,306	-
Repayment of loans and borrowings		(15,800)	(2,450)
Net cash flow from financing activities		2,816	(3,163)
NET DECREASE IN CASH AND CASH EQUIVALENTS		24,993	(2,468)
Cash and cash equivalents at beginning of the period		1,276	2,724
Effect of exchange rate changes on cash		(6)	48
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		\$26,263	\$304

This statement is to be read in conjunction with the Notes on pages 14 to 22 and the previous year's annual financial statements.

Cavalier Corporation Limited and subsidiary companies

Condensed Consolidated Statement of Cash Flows (continued)

Reconciliation of profit/(loss) with net cash flow from operating activities

Six months ended 31 December 2020 (Unaudited)	Note	Six months ended 31 December 2020 \$000	Six months ended 31 December 2019 \$000
Profit/(Loss) after tax for the period		4,272	(1,154)
Add/(Deduct) non-cash and other items:			
Depreciation – owned assets		1,136	1,700
Depreciation – right-of-use assets		65	945
Deferred tax asset		104	(213)
Employee benefits and entitlements		786	(4)
Deferred income		-	(9)
Provisions		200	(164)
Share-based payment		5	-
Net gain on sale of plant and equipment		(17)	(2)
Net gain on sale and leaseback of property	9	(2,511)	-
Net (gain)/loss on foreign currency balance		6	(48)
Changes in working capital items:			
Trade and other receivables and prepayments		4,232	760
Inventories		7,543	2,419
Tax receivable/payable		(172)	(390)
Trade payables and accruals		2,302	(2,132)
Derivative financial instruments		(406)	291
Net cash flow from operating activities		\$17,545	\$1,999

This statement is to be read in conjunction with the Notes on pages 14 to 22 and the previous year's annual financial statements.

Cavalier Corporation Limited and subsidiary companies

Notes to the Financial Statements

For the six months ended 31 December 2020

1. General information

Reporting entity

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 (by virtue of it being a listed issuer) for the purposes of the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013.

The interim financial statements contained in this half-yearly report have been prepared in accordance with these Acts and are for Cavalier and its subsidiaries ("the Group") as at, and for the six months ended, 31 December 2020.

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

The principal activities of the Group comprise wool acquisition, and woollen carpet and rug manufacturing and sales.

All Group subsidiaries are wholly-owned.

Basis of preparation

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.

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, and the comparative information for the six months ended 31 December 2019, are unaudited. The comparative information as at 30 June 2020 is audited.

The interim financial statements were approved for issue by the Board of Directors ("Board") of the Company on 24 February 2021.

Critical accounting judgements, estimates and assumptions

In preparing the interim financial statements, the Group has consistently applied the judgements, estimates and assumptions adopted in the preparation of the annual financial statements for the year ended 30 June 2020.

Cavalier Corporation Limited and subsidiary companies

Notes to the Financial Statements (continued)

Accounting policies

The interim financial statements should be read in conjunction with the annual financial statements for the year ended 30 June 2020 and the accounting policies set out therein.

All accounting policies adopted in the preparation of the interim financial statements are consistent with those adopted in the preparation of the annual financial statements.

2. Going concern

The Group prepares its financial statements on a going concern basis and expects to be able to realise its assets and meet its financial obligations in the normal course of business.

In preparing the financial statements for the year ended 30 June 2020, the Board noted that there was material uncertainty concerning the Group's ability to generate sufficient cash flows to meet its debt repayment obligations and to provide the Group with sufficient liquidity to operate as a going concern should the Group not complete the sale and leaseback of its Auckland property or raise additional equity or debt funding.

With the settlement of the sale and leaseback of the Auckland property on 23 December 2020 (see also note 9) and the plans to exit the non-wool carpet market having proceeded better than originally expected (see also note 11), the Group has been able to not only fully repay its loans and borrowings but also put itself in a significant cash surplus position during the period (see also note 7).

As a consequence, there is no longer any material uncertainty related to going concern at balance date, with the Group not only able to meet its contractual obligations for a period of at least 12 months from the issuance of the financial statements, but also have the funding over the next couple of years until it begins to realise the financial benefits of its transformation strategy to becoming an interior solutions business focused on wool and natural materials.

Cavalier Corporation Limited and subsidiary companies

Notes to the Financial Statements (continued)

3. Segment performance

Unaudited	Carpet sales and manufacturing		Wool acquisition		Total	
	Six months ended 31 December 2020 \$000	Six months ended 31 December 2019 \$000	Six months ended 31 December 2020 \$000	Six months ended 31 December 2019 \$000	Six months ended 31 December 2020 \$000	Six months ended 31 December 2019 \$000
External revenue	54,322	56,675	5,977	7,709	60,299	64,384
Inter-segment revenue	-	-	973	1,240	973	1,240
Total revenue	\$54,322	\$56,675	\$6,950	\$8,949	61,272	65,624
Elimination of inter-segment revenue					(973)	(1,240)
Consolidated revenue					\$60,299	\$64,384
Segment result before depreciation	5,477	3,564	(52)	78	5,425	3,642
Depreciation – owned assets	(1,062)	(1,625)	(74)	(75)	(1,136)	(1,700)
Depreciation - right-of-use assets	-	(833)	(65)	(112)	(65)	(945)
Segment result before gain on sale and leaseback of property and restructuring and transformation costs	4,415	1,106	(191)	(109)	4,224	997
Gain on sale and leaseback of property	2,511	-	-	-	2,511	-
Restructuring and transformation costs	(1,117)	(816)	-	-	(1,117)	(816)
Segment result after gain on sale of property and restructuring and transformation costs	5,809	290	(191)	(109)	5,618	181
Elimination of inter-segment profits					10	61
Unallocated corporate costs					(671)	(752)
Result from operating activities					4,957	(510)
Net finance costs					(540)	(1,055)
Profit/(Loss) before tax					4,417	(1,565)
Tax (expense)/credit					(145)	411
Profit/(Loss) after tax for the period					\$4,272	\$(1,154)

	Carpet sales and manufacturing		Wool acquisition		Total	
	Unaudited As at 31 December 2020 \$000	Audited As at 30 June 2020 \$000	Unaudited As at 31 December 2020 \$000	Audited As at 30 June 2020 \$000	Unaudited As at 31 December 2020 \$000	Audited As at 30 June 2020 \$000
Reportable segment assets	51,235	67,474	2,860	2,507	54,095	\$69,981
Unallocated assets					26,263	-
Total assets					\$80,358	\$69,981
Reportable segment liabilities	18,671	19,363	919	1,181	19,590	20,544
Unallocated liabilities					22,503	15,800
Total liabilities					\$42,093	\$36,344

Cavalier Corporation Limited and subsidiary companies

Notes to the Financial Statements (continued)

3. Segment performance (continued)

The Group's reportable and operating segments are:

- carpet sales and manufacturing; 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.

	Unaudited Six months ended 31 December 2020 \$000	Unaudited Six months ended 31 December 2019 \$000
Revenue		
New Zealand	35,511	36,135
Australia	23,413	26,573
Rest of the world	1,375	1,676
Total revenue	\$60,299	\$64,384
	Unaudited As at 31 December 2020 \$000	Audited As at 30 June 2020 \$000
Non-current assets		
New Zealand	20,735	22,740
Australia	769	1,015
Total non-current assets	\$21,504	\$23,755

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.

Cavalier Corporation Limited and subsidiary companies

Notes to the Financial Statements (continued)

4. Revenue

	Unaudited Six months ended 31 December 2020 \$000	Unaudited Six months ended 31 December 2019 \$000
Sales of goods		
Carpet	54,105	56,206
Wool fibre	5,977	7,709
Carpet yarn	217	469
Total revenue	\$60,299	\$64,384

5. Other income and gains

	Unaudited Six months ended 31 December 2020 \$000	Unaudited Six months ended 31 December 2019 \$000
Rentals received	2	2
Dividends received	1	1
Net gain on sale of plant and equipment	17	2
Net gain on sale and leaseback of property	2,511	-
Total other income and gains	\$2,531	\$5

6. Net finance costs

	Unaudited Six months ended 31 December 2020 \$000	Unaudited Six months ended 31 December 2019 \$000
Interest expense – loans and borrowings	425	761
Interest expense – lease liabilities	118	294
Interest income	(3)	-
Net finance costs	\$540	\$1,055

7. Loans and borrowings and cash and cash equivalents

	Unaudited As at 31 December 2020 \$000	Audited As at 30 June 2020 \$000
Loans and borrowings	-	15,800
Cash and cash equivalents	26,263	1,276

The Group fully repaid its loans and borrowings, while also putting itself in a surplus cash position, during the period, with the cash coming largely from the Group's sale and leaseback of the Auckland property and its exit from the non-wool carpet market.

Cavalier Corporation Limited and subsidiary companies

Notes to the Financial Statements (continued)

8. Share-based payment arrangement

Description of share-based payment arrangement

On 18 December 2020, the Company established a long-term incentive scheme for executive employees pursuant to which the Company will issue performance rights ("Rights") to the participants which would entitle the participants to be issued shares in the Company, subject to service and performance conditions being met, at the end of the stipulated performance period.

On 21 December 2020, the Company offered Rights to selected key management personnel ("Participants") that will entitle the Participants to be issued shares in the Company for no cash consideration provided that total shareholder return ("TSR") over the period from 1 November 2020 to 1 May 2023 ("Performance Period") exceeds 14% per annum compounding and they remain employed by the Company as at 1 May 2023 ("Condition Date").

TSR is defined as the increase in share price over the Performance Period adjusted upwards for distributions made by the Company during that period.

The Company has determined the Rights issued under the scheme to be an equity-settled share-based payment arrangement pursuant to NZ IFRS 2 *Share-based Payment*, with the Participants not able to request payment in cash.

The Company has established grant date of the Rights to be 21 December 2020 ("Grant Date"), being the date at which the parties had a shared understanding of the terms and conditions of the share-based arrangement.

Shares issued under the arrangement are subject to trading restrictions, with 40% of the shares able to be traded immediately, 30% one year after issue date and the remaining 30% two years after issue date.

Measurement of fair value

The fair value of the Rights at the Grant Date of \$395,000 has been determined using a Monte Carlo simulation.

Specifically, the Monte Carlo simulation is used as follows:

- to predict Cavalier's future share prices (a "market" condition" under NZ IFRS 2), gross of dividends, using a random-walk process which is driven by assumptions regarding volatility and the underlying drift rate from Grant Date through to Condition Date
- to calculate the annualised TSR at the Condition Date implied by the simulated share price
- to determine the extent to which the calculated TSR exceeds 14% per annum compounding
- to calculate the number of shares to be issued, taking into account the share cap under the share-based arrangement, and the implied payoff to the Participants based on the number of shares issued and the simulated share price at Condition Date

The inputs used in the measurement of the fair value at Grant Date of the Rights are as follows.

- Share price at Grant Date - \$0.36 per share, being the Cavalier closing share price on NZX on 21 December 2020
- Share price at start of the Performance Period - \$0.31 per share, being the 20-day volume weighted average sale price of a Cavalier share on NZX up to 1 November 2020

Cavalier Corporation Limited and subsidiary companies

Notes to the Financial Statements (continued)

8. Share-based payment arrangement (continued)

Measurement of fair value (continued)

- Expected volatility - 58%, based on the annualised volatility for the 2.5 years prior to Grant Date, being the historical period commensurate with the expected term of the Rights
- Expected term – 2.5 years
- Expected dividends – Nil
- Drift rate used to discount Participants' payoff from the Condition Date to the Grant Date – 14% per annum

Post-vesting trading restrictions relating to the shares that may be issued on Condition Date have been incorporated into the Monte Carlo simulation modelling used to determine fair value at Grant Date of the Rights by discounting the simulated value of the shares at the Condition Date, with the discount rate based on the price of a notional put option which could be purchased to hedge share price exposure during the restriction period.

Service condition attached to the Rights has not been taken into account in determining fair value because it is classified as a "non-market" condition (being a condition that is not dependent on share price) under NZ IFRS 2, with service condition reflected in the number of shares expected to be issued as a result of the condition.

Outstanding Rights

The number of shares that will be issued on Condition Date of the outstanding Rights is unknown at balance date.

The number of shares to be issued is dependent on the extent to which TSR exceeds 14% per annum compounding over the Performance Period and the share price at Condition Date, except that the number of shares issued to all Participants will not, together with shares issued under NZX Listing Rule 4.6.1 over the previous 12 months, exceed 3% of the total number of shares on issue at Condition Date.

Expense recognised in profit or loss

The assessed fair value of the Rights at Grant Date of \$395,000 will be recognised as an expense in profit or loss over the period from Grant Date to Condition Date, adjusted to reflect only those Rights where the service condition will be met, with corresponding entries to the Share-Based Payment Reserve within equity.

\$5,000 (being the proportion of fair value of the Rights relating to the period from Grant Date to balance date) has been recognised in administration expenses in the Condensed Consolidated Income Statement for the six months ended 31 December 2020, with a corresponding credit to equity.

Cavalier Corporation Limited and subsidiary companies

Notes to the Financial Statements (continued)

9. Sale and leaseback of property

On 23 December 2020, the Group completed the sale and leaseback of its Auckland property for \$25,500,000.

The initial term of the leaseback is 14 years plus one right of renewal of six years, with net rent at commencement date of \$1,600,000 per annum and a 2.5% increase in rent per annum on each anniversary of the commencement date (except where that anniversary coincides with a market rent review date). Market rent reviews will take place on the sixth anniversary of the commencement date and on the renewal date, with market rent to be no less than 100% and no greater than 110% of the annual rent immediately preceding the relevant rent review date.

The terms of the sale and leaseback are typical for those entered into for large industrial sites in the Auckland region and the triple-net lease (where the lessee assumes direct responsibility for all costs payable in respect of the property (including rates, insurance and maintenance of the premises (including structural repairs and capital works))) typical after having regard to the age and condition of the Auckland property.

The Group has estimated the present value of the rental obligations in respect of the leaseback to be \$15,956,000, based on the initial term of the leaseback of 14 years and the net rent during that initial term (but ignoring the market rent review to take place on the sixth anniversary of the commencement date), discounted at the Group's incremental borrowing rate of 7.5% per annum.

The sale and leaseback has been accounted for in accordance with paragraphs 98 to 103 of NZ IFRS 16 *Leases* because the Group had control of the underlying asset before that asset was transferred to the buyer-lessor, with the difference between the \$25,500,000 from the sale and leaseback of the property less transaction costs of \$477,500 and the carrying value of the property of \$12,732,500 giving rise to the following:

- right-of-use asset of \$9,527,000;
- lease liability assumed of \$19,306,000; and
- net gain on sale and leaseback of \$2,511,000.

The Group decided to exit the non-wool carpet market and return to an all-wool and natural materials business model – focusing on designing and creating desirable, sustainable, safe and high-performing natural interior solutions - during the year ended 30 June 2020.

To facilitate that transformation to the new model, the Group needed to raise capital, with the Group taking extensive external independent advice and investigating a range of opportunities to realise additional funds to allow the Group to execute its transformation as well as support the business in light of the impact of, and the uncertainty caused by, COVID 19.

The sale and leaseback of the Auckland property represented the most effective way of accessing capital, even though the Board is continuing to consider other capital raising options to further strengthen the Company's balance sheet if required.

The net proceeds from the sale and leaseback will be used to provide the Group with:

- the financial resources to undertake its strategic transformation to the all-wool and natural materials business model;
- additional liquidity and funding during the current uncertain operating environment; and
- a sound financial footing to better capitalise on opportunities in the carpet market.

Cavalier Corporation Limited and subsidiary companies

Notes to the Financial Statements (continued)

10. Capital commitments

	Unaudited As at 31 December 2020 \$000	Audited As at 30 June 2020 \$000
Capital expenditure commitments	\$154	\$469

11. Inventories

	Unaudited As at 31 December 2020 \$000	Audited As at 30 June 2020 \$000
Raw materials and consumables	6,107	12,547
Work in progress	671	1,439
Finished goods	16,902	18,095
	\$23,680	\$32,081
Inventory provisioning	\$3,266	\$4,741

During the six months ended 31 December 2020, the net realisable value provision in respect of inventories decreased by \$1,475,000 (six months ended 31 December 2019: increased by \$348,000), with the amount released to profit or loss largely reflecting how the plans to sell down non-wool carpet inventories had progressed better than originally expected - both in terms of timing and value.

12. Contingencies

	Unaudited As at 31 December 2020 \$000	Audited As at 30 June 2020 \$000
Indemnities in favour of Bank of New Zealand and National Australia Bank (together, "the Bank") in respect of Bank guarantees relating to lease and other commitments	\$2,405	\$899

The increase in indemnities in favour of the Bank relates largely to the Bank guarantee relating to the leaseback of the Auckland property.

13. Related parties

Apart from directors' fees, key management personnel remuneration and the issue of performance rights referred to in note 8 *Share-based payment arrangement* to selected key management personnel, there have been no other material transactions with the directors, key management personnel and their related parties or with any other related parties during the period.

There were no loans to, or from, the directors and key management personnel during the period.

14. Subsequent events

There have been no events subsequent to 31 December 2020 which would materially affect the financial statements.

Cavalier Corporation Limited and subsidiary companies

Disclosure of Non-GAAP Financial Information

For the six months ended 31 December 2020

The half year report for the six months ended 31 December 2020 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 July 2017.

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 and has not been independently reviewed.

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 and transformation costs and other gains/losses (for example, gain/loss on sale of property and investments) 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.

Non-GAAP financial information does not have standardised meaning prescribed by GAAP and therefore may not be comparable to similar financial information prescribed by other entities.

In putting together the half year report, the Directors have considered all the requirements within the guidance note. More specifically, these include:

- outlining why non-GAAP financial information is useful to investors and how it is used internally by management;
- identifying the source of non-GAAP financial information;
- ensuring that:
 - non-GAAP financial information is not presented with undue and greater prominence, emphasis or authority than the most directly comparable GAAP financial information;
 - presentation of non-GAAP financial information does not in any way confuse or obscure presentation of GAAP financial information;
 - a reconciliation from the non-GAAP financial information to the most directly comparable GAAP financial information, including that for the previous period, can be easily accessed (see pages 24 and 25);
 - a consistent approach is adopted from period to period with respect to the presentation of non-GAAP financial information, including that for comparative periods;
 - where there is any change in approach from the previous period, the nature of the change is explained and the reasons and financial impact provided;
 - non-GAAP financial information is unbiased; and
- taking care when describing, or referring to, items as 'one-off' or 'non-recurring'.

Cavalier Corporation Limited and subsidiary companies

Disclosure of Non-GAAP Financial Information (continued)

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

Six months ended 31 December 2020

	GAAP \$000	Adjustments \$000	Normalised \$000
Revenue	\$60,299	-	\$60,299
EBITDA	6,158	(1,394)	4,764
Depreciation - owned assets	(1,136)	-	(1,136)
Depreciation – right-of-use assets	(65)	-	(65)
EBIT	4,957	(1,394)	3,563
Net interest expense	(540)	-	(540)
Profit before tax	4,417	(1,394)	3,023
Tax expense	(145)	(728)	(873)
Profit after tax	\$4,272	(2,122)	2,150
Abnormal net gain after tax		2,122	2,122
Profit after tax (GAAP)		-	\$4,272

Analysis of adjustments

	Before tax \$000	Tax effect \$000	After tax \$000
Net gain on sale and leaseback of property	2,511	-	2,511
Restructuring costs	(1,117)	-	(1,117)
Normalisation of tax expense	-	728	728
	\$1,394	\$728	\$2,122

Cavalier Corporation Limited and subsidiary companies

Disclosure of Non-GAAP Financial Information (continued)

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

Six months ended 31 December 2019			
	GAAP \$000	Adjustments \$000	Normalised \$000
Revenue	\$64,384	-	\$64,384
EBITDA	2,135	816	2,951
Depreciation - owned assets	(1,700)	-	(1,700)
Depreciation – right-of-use assets	(945)	-	(945)
EBIT	(510)	816	306
Net interest expense	(1,055)	-	(1,055)
Loss before tax	(1,565)	816	(749)
Tax credit	411	(228)	183
Loss after tax	\$(1,154)	588	(566)
Abnormal net loss after tax		(588)	(588)
Loss after tax (GAAP)		-	\$(1,154)
Analysis of adjustments	Before tax \$000	Tax effect \$000	After tax \$000
Transformation costs	(816)	228	(588)
	\$(816)	\$228	\$(588)

Cavalier Corporation Limited

Corporate Directory

Board of Directors:

George Adams DipFSA(Hons), FCA, CFInstD
Independent

Chairman of the Board of Directors
Chairman of Nomination Committee
Member of Audit and Remuneration Committees

Grant Biel B.E. (Mech.)
Non-independent

Member of Audit, Remuneration and Nomination
Committees

Paul Izzard BA (Hons) Interior Design
Independent

Member of Audit and Remuneration Committees

John Rae B.Com., LLB, CMInstD
Independent

Chairman of Audit Committee
Member of Remuneration and Nomination Committees

Dianne Williams B.Com., MBA, CMInstD
Independent

Chairman of Remuneration Committee
Member of Audit and Nomination Committees

Chief Executive Officer:

Paul Alston BBS, CA

Chief Financial Officer and 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.bremworth.co.nz, www.bremworth.com.au,

Wool Operation

www.elcodirect.co.nz

Share Registrar

www.computershare.co.nz/investorcentre