CAVALIER
CORPORATION

Half Year Report 2018

Contents

Financial Summary

For the six months ended 31 December 2017 (Unaudited)

	Unaudited Six months ended 31 Dec 2017 $000	Unaudited Six months ended 31 Dec 2016 $000	Audited Year ended 30 Jun 2017 $000
Revenue	**$75,316**	**$84,278**	**$156,120**
EBITDA (normalised)[1]	4,418	497	2,572
Depreciation	(1,806)	(1,680)	(3,251)
EBIT (normalised)[1]	2,612	(1,183)	(679)
Net interest expense	(1,504)	(1,489)	(2,936)
Share of profit after tax of equity-accounted investee (normalised)[1]	381	88	797
Profit/(loss) before tax (normalised)[1]	1,489	(2,584)	(2,818)
Tax (expense)/credit	(341)	708	962
Profit/(loss) after tax (normalised)[1]	**1,148**	**(1,876)**	**(1,856)**
Abnormal net gains/(losses) after tax[1]	(140)	1,907	(268)
Profit/(loss) after tax (GAAP)	**$1,008**	**$31**	**$(2,124)**
Net cash flow from operating activities	**$7,542**	**$(4,789)**	**$(5,373)**
Basic and diluted earnings per share (cents) – based on weighted average number of shares outstanding of 68,679,098			
Normalised[1]	**1.7**	**(2.7)**	**(2.7)**
GAAP	**1.5**	**–**	**(3.1)**
Return on average shareholders' equity (%)			
Normalised[1]	**1.7%**	**(2.7%)**	**(2.7%)**
GAAP	**1.5%**	**–**	**(3.1%)**

	Unaudited As at 31 Dec 2017	Unaudited As at 31 Dec 2016	Audited As at 30 Jun 2017
Net tangible asset backing per share ($)	**$0.97**	**$0.98**	**$0.95**
Equity to total assets (%)	**53.1%**	**49.5%**	**48.9%**
Net interest-bearing debt to equity ratio	**33:67**	**38:62**	**37:63**

[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 20 to 22 of the Half Year Report.

Directors' Report

For the six months ended 31 December 2017

The Directors of Cavalier Corporation present their report, including financial statements, for the period to 31 December 2017.

FINANCIAL PERFORMANCE

Six months ended 31 December Unaudited	2017 $000	2016 $000
Revenue	**$75,316**	**$84,278**
EBIT (normalised)[1]	**2,612**	**(1,183)**
Net interest expense	(1,504)	(1,489)
Share of equity-accounted investee profit (normalised after tax)[1]	381	88
Profit/(loss) before tax (normalised)[1]	**1,489**	**(2,584)**
Income tax	(341)	708
Profit/(loss) after tax (normalised)[1]	**1,148**	**(1,876)**
Restructuring costs	(140)	(2,894)
Reversal of impairment of fixed assets	0	1,038
Gain on merger of equity-accounted investee	0	3,763
Profit after tax (GAAP)	**$1,008**	**$31**
Earnings per share (cents) (normalised)[1]	**1.7**	**(2.7)**
Earnings per share (cents) (GAAP)	**1.5**	**0.0**

[1] Normalised is a non-GAAP (Generally Accepted Accounting Practice) measure that provides what the Directors believe to be a more meaningful view of the underlying financial performance of the Group. A reconciliation between GAAP and normalised earnings together with further commentary on the disclosure of non-GAAP financial information are set out at pages 20 to 22 of the Half Year Report.

The Directors report improved half year performance for Cavalier Corporation Limited (NZX: CAV), with a lift in profit, improved cash flows and a stronger financial position. This follows the consolidation programme undertaken in the previous year and reflects better margins, reduced costs and a more efficient manufacturing operation.

For the six months ended 31 December 2017, Earnings Before Interest Tax and Depreciation was $4.4 million (HY17: $2.0 million loss) and Net Profit After Tax (NPAT) was $1.0 million (HY17: NIL).

Normalised NPAT for HY18 was $1.15 million after adding back a $0.15 million non-cash charge for restructuring costs. This compares to the previous first half year normalised Net Loss After Tax of $(1.9) million which excluded net abnormal gains of $1.9 million, including a $3.8 million non-cash valuation gain made on Cavalier's interest in the Cavalier Wool Holdings (CWH) scouring joint venture investment.

Revenue for the period was $75.3 million (HY17: $84.3 million) reflecting reduced carpet sales in the first half due to market conditions and supply challenges that arose from the manufacturing rationalisation, and a materially lower wool price which impacted the revenues of Cavalier's wool buying business, Elco Direct.

More favourable macro-economic conditions, including the lower wool price starting to flow through the carpet business, and a significantly reduced cost base, have assisted performance – with more gains expected in the second half of the year. Manufacturing costs from FY17 which flowed into the first six months of FY18 will also not repeat in the second half.

Despite taking longer to execute and costing more than planned, the benefits of the essential investment made to consolidate manufacturing in FY17 are starting to be realised.

FINANCIAL POSITION

Cavalier's financial position improved during the six months to 31 December 2017, with equity to total assets of 53.1% and net interest bearing debt to equity ratio of 33:67 as at that date (30 June 2017: 48.9% and 37:63 respectively).

Total assets employed in the business were down largely as a result of the control on capital expenditure and the reduction in inventory by almost $5 million.

These, together with improved profitability, enabled Cavalier to reduce debt and strengthen its financial position.

CASH FLOWS

Cash flow from operations of $7.5 million for the six months ended 31 December 2017 is a significant improvement on the negative cash flow of $(4.8) million the previous year, attributable to improved profitability and the fact that the previous year's cash flow was impacted by the cash costs associated with the restructuring of manufacturing and a capital gains tax payment from the sale of property in FY16.

As a consequence, Cavalier was able to reduce net bank debt by $7.0 million, to $33.3 million, during the period.

CARPET BUSINESS

On the back of the challenging consolidation project in FY17, good progress has been made on the manufacturing side of the carpet business with effective cost controls in place and increased manufacturing throughput and productivity at the felting plant in Wanganui and the tufting plant in Auckland. However, there still remains work to do to hit optimum performance and efficiency, particularly at the spinning plant in Napier. This remains a key focus for Cavalier's Board and Management team.

On the sales side there has been a softening in overall revenue, in part due to a loss of confidence in supply, which came as a result of challenges with the manufacturing consolidation in FY17. With much improved supply, the business is now moving quickly to work with retailers to reinstil confidence and stimulate sales.

Encouragingly there has been a lift in sales of high end, high margin Cavalier Bremworth wool products.

Directors' Report (continued)

For the six months ended 31 December 2017

WOOL BUSINESS

While the materially lower wool price is positively impacting the carpet business it is the cause of the reduction in revenue of Cavalier's wool buying business, Elco Direct.

Despite the lower revenue, Elco Direct recorded improved earnings on the back of improved margins, with volume and operating expenses largely unchanged.

The Company's share of earnings of its 27.5% owned wool scouring business, CWH, was also up as a result of the modest improvement in operating conditions.

OUTLOOK

There remains much to do to realise long term sustainable growth for Cavalier. However, the HY18 results are showing the positive progress that is being made.

The last 18 months have been about making tough decisions to right size and reset the Company's manufacturing base as well as critically invest in the hero Cavalier Bremworth brand.

The Company is also listening carefully to its retail partners and customers and now has a clear path forward as a quality focused carpet manufacturer.

It is with that in mind that the Directors expect to see a return to sustainable and profitable growth, with steady and on-going improvements in the second half of FY18 and beyond.

DIVIDENDS

As per previous guidance, dividends will resume when Cavalier returns to sustained levels of profitability and has its bank debt firmly under control.

It is clear that the Company is now on the right path towards this, but not yet in a position to pay dividends.

BOARD SUCCESSION

As the Company moves forward into the next stage of implementing its transformation strategy, the Directors are pleased to announce that Alan Clarke will become Chairman of the Board on 1 April 2018. Sarah Haydon, Chairman since 2015, and a director since 2012, will take over the role of Chairman of the Audit Committee on that date.

For and on behalf of the Board of Directors:

S E F Haydon
Chairman

J M Rae
Director

14 March 2018

Condensed Consolidated Income Statement

Six months ended 31 December 2017 (Unaudited)

	Notes	Unaudited Six months ended 31 Dec 2017 $000	Unaudited Six months ended 31 Dec 2016 $000
Revenue	6	75,316	84,278
Cost of sales		(57,914)	(67,951)
Gross profit		**17,402**	**16,327**
Other income and gains	7	76	16
Distribution expenses		(11,806)	(13,978)
Administration expenses		(3,060)	(3,547)
Restructuring costs		–	(3,989)
Reversal of impairment of fixed assets		–	1,442
Results from operating activities		**2,612**	**(3,729)**
Net finance costs		(1,504)	(1,489)
Share of profit of equity-accounted investee (net of tax)	5	241	65
Gain on merger and dilution of equity-accounted investee	5	–	3,763
Profit/(loss) before tax	8	**1,349**	**(1,390)**
Tax (expense)/credit		(341)	1,421
Profit after tax for the period		**$1,008**	**$31**
Profit after tax attributable to:			
Shareholders of Cavalier Corporation Limited		1,008	31
Non-controlling interests		–	–
Profit after tax for the period		**$1,008**	**$31**
Basic and diluted earnings per share (cents)		**1.5**	**–**
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 12 to 19 and the previous year's annual financial statements.

Condensed Consolidated Statement of Comprehensive Income

Six months ended 31 December 2017 (Unaudited)

	Note	Unaudited Six months ended 31 Dec 2017 $000	Unaudited Six months ended 31 Dec 2016 $000
Profit after tax for the period		**1,008**	**31**
Other comprehensive income that may be reclassified subsequently to profit or loss			
Effective portion of changes in fair value of cash flow hedges		45	846
Net change in fair value of cash flow hedges transferred to profit or loss		65	121
Tax on other comprehensive income		(31)	(271)
Share of fair value of cash flow hedges (net of tax) of equity-accounted investee	5	(24)	(82)
Foreign currency translation differences for foreign operations		116	(27)
		171	**587**
Other comprehensive income not reclassified subsequently to profit or loss		**–**	**–**
Other comprehensive income for the period, net of tax		**171**	**587**
Total comprehensive income for the period		**$1,179**	**$618**
Total comprehensive income attributable to:			
Shareholders of Cavalier Corporation Limited		1,179	618
Non-controlling interests		–	–
Total comprehensive income for the period		**$1,179**	**$618**

This statement is to be read in conjunction with the Notes on pages 12 to 19 and the previous year's annual financial statements.

Condensed Consolidated Statement of Changes in Equity

Six months ended 31 December 2017 (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**	**(322)**	**(1,419)**	**47,785**	**67,890**
Total comprehensive income for the period					
Profit after tax	–	–	–	1,008	1,008
Other comprehensive income that may be reclassified subsequently to profit or loss					
Changes in fair value of cash flow hedges (net of tax)	–	79	–	–	79
Share of fair value of cash flow hedges (net of tax) of equity-accounted investee	–	(24)	–	–	(24)
Foreign currency translation differences for foreign operations	–	–	116	–	116
	–	**55**	**116**	**–**	**171**
Other comprehensive income not reclassified subsequently to profit or loss	**–**	**–**	**–**	**–**	**–**
Total other comprehensive income	**–**	**55**	**116**	**–**	**171**
Total comprehensive income for the period	**–**	**55**	**116**	**1,008**	**1,179**
Total equity at end of the period	**$21,846**	**$(267)**	**$(1,303)**	**$48,793**	**$69,069**

This statement is to be read in conjunction with the Notes on pages 12 to 19 and the previous year's annual financial statements.

Condensed Consolidated Statement of Changes in Equity (continued)

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**
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 12 to 19 and the previous year's annual financial statements.

Condensed Consolidated Statement of Financial Position

As at 31 December 2017 (Unaudited)

	Note	Unaudited 31 Dec 2017 $000	Audited 30 Jun 2017 $000
ASSETS			
Property, plant and equipment		35,963	37,123
Intangible assets		2,362	2,362
Investment in equity-accounted investees	5	23,707	23,490
Deferred tax asset		5,426	5,532
Total non-current assets		**67,458**	**68,507**
Cash and cash equivalents		843	1,255
Trade receivables, other receivables and prepayments		15,226	17,261
Inventories		45,970	50,635
Derivative financial instruments		457	898
Tax receivable		–	301
Total current assets		**62,496**	**70,350**
Total assets		**$129,954**	**$138,857**
EQUITY			
Share capital		21,846	21,846
Cash flow hedging reserve		(267)	(322)
Foreign currency translation reserve		(1,303)	(1,419)
Retained earnings		48,793	47,785
Total equity attributable to equity holders of the Company		**69,069**	**67,890**
LIABILITIES			
Loans and borrowings		33,600	35,000
Employee benefits		1,209	1,097
Deferred income		31	18
Provisions		2,274	2,613
Total non-current liabilities		**37,114**	**38,728**
Loans and borrowings		500	6,500
Trade creditors and accruals		16,888	18,855
Provisions		1,414	1,693
Employee entitlements		3,736	3,832
Deferred income		31	67
Derivative financial instruments		867	1,292
Tax payable		335	–
Total current liabilities		**23,771**	**32,239**
Total liabilities		**60,885**	**70,967**
Total equity and liabilities		**$129,954**	**$138,857**

This statement is to be read in conjunction with the Notes on pages 12 to 19 and the previous year's annual financial statements.

Condensed Consolidated Statement of Cash Flows

Six months ended 31 December 2017 (Unaudited)

	Unaudited Six months ended 31 Dec 2017 $000	Unaudited Six months ended 31 Dec 2016 $000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	76,960	86,336
Cash paid to suppliers and employees	(69,136)	(87,590)
Dividends received	1	1
Other receipts	2	12
GST refunded	850	376
Interest paid	(1,503)	(1,442)
Income tax refunded/(paid)	368	(2,482)
Net cash flow from operating activities	**7,542**	**(4,789)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	148	56
Acquisition of property, plant and equipment	(721)	(1,176)
Net cash flow from investing activities	**(573)**	**(1,120)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase/(decrease) in bank loans and borrowings	(7,400)	5,350
Net cash flow from financing activities	**(7,400)**	**5,350**
NET DECREASE IN CASH AND CASH EQUIVALENTS	(431)	(559)
Cash and cash equivalents at beginning of the period	1,255	1,200
Effect of exchange rate changes on cash	19	48
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**$843**	**$689**

This statement is to be read in conjunction with the Notes on pages 12 to 19 and the previous year's annual financial statements.

Condensed Consolidated Statement of Cash Flows (continued)

Six months ended 31 December 2017 (Unaudited)

	Unaudited Six months ended 31 Dec 2017 $000	Unaudited Six months ended 31 Dec 2016 $000
RECONCILIATION OF PROFIT WITH NET CASH FLOW FROM OPERATING ACTIVITIES		
Profit after tax for the period	**1,008**	**31**
Add/(deduct) non-cash and other items:		
Depreciation	1,806	1,680
Share of profit of equity-accounted investee	(241)	(65)
Gain on merger and dilution of equity-accounted investee	–	(3,763)
Reversal of impairment of fixed assets	–	(1,442)
Deferred tax asset	75	989
Employee benefits	112	24
Deferred income	13	(29)
Provisions	(618)	(2,212)
Net gain on sale of property, plant and equipment	(73)	(3)
Net gain on foreign currency balance	(19)	(45)
Changes in working capital items:		
Trade and other receivables and prepayments	2,039	2,460
Inventories	4,665	8,529
Tax receivable/payable	634	(4,892)
Trade creditors and accruals	(1,985)	(6,061)
Derivative financial instruments	126	10
Net cash flow from operating activities	**$7,542**	**$(4,789)**

This statement is to be read in conjunction with the Notes on pages 12 to 19 and the previous year's annual financial statements.

Notes to the Financial Statements

For the six months ended 31 December 2017

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 2017.

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 financial statements have been prepared in accordance with these Acts.

The principal activities of the Group comprise carpet sales and manufacturing and wool procurement.

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 15 February 2018.

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 2016, are unaudited. The comparative information as at 30 June 2017 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 2017. The interim financial statements should therefore be read in conjunction with those annual financial statements and the accounting policies set out therein.

3. 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.

The Group's ability to comply with the Bank's financial covenants and generate sufficient cash flows from operations to satisfy its funding and other financial obligations for a period of at least 12 months following balance date is important to determining the appropriateness of the going concern basis of accounting.

In this regard, reliance is placed on the forecasts of the Group's financial performance, cash flows and financial position that are prepared by management as part of its monitoring of the Group's operations and the Group's ability to comply with, among other things, the Bank's financial covenants and debt repayment obligations over the term of its Bank facility.

As discussed in the Group's annual financial statements for the year ended 30 June 2017, these financial forecasts are particularly sensitive to changes in some of the assumptions underlying the forecasts – including sales volumes and margins, manufacturing performances, cost-reduction initiatives and a number of external factors over which the Group has limited control over, such as exchange rates and raw material input costs.

However, the Directors note the progress that has been made since August 2017 when they authorised the issue of the Group's annual financial statements for the year ended 30 June 2017.

In particular, the Group has – in the six months to 31 December 2017 – not only returned to profitability and reduced inventory but also generated positive cash flows from operations to allow it to reduce net bank loans and borrowings by $7 million. As a consequence, it is now in a stronger financial position.

The Directors also note the initiatives, and the disciplines, in place to further reduce cost, inventory and bank loans and borrowings and to return the Group to a sound financial footing.

The Directors consider the Group to be a going concern and believe that the Group will be able to meet its contractual obligations as these fall due and to renegotiate its funding facilities with the Bank before it next comes up for renewal.

Notes to the Financial Statements (continued)

For the six months ended 31 December 2017

4. SEGMENT PERFORMANCE

Unaudited	**Carpets**		**Wool Acquisition**	
	Six months ended 31 Dec 2017 $000	**Six months ended 31 Dec 2016 $000**	**Six months ended 31 Dec 2017 $000**	**Six months ended 31 Dec 2016 $000**
External revenue	65,959	71,238	9,357	13,040
Inter-segment revenue	–	–	1,482	2,530
Total revenue	**$65,959**	**$71,238**	**$10,839**	**$15,570**
Elimination of inter-segment revenue				
Consolidated revenue				
Segment result before depreciation, restructuring costs and reversal of impairment of fixed assets	4,789	954	581	344
Depreciation	(1,750)	(1,620)	(56)	(60)
Segment result before restructuring costs and reversal of impairment of fixed assets	**3,039**	**(666)**	**525**	**284**
Restructuring costs	–	(3,989)	–	–
Reversal of impairment of fixed assets	–	1,442	–	–
Segment result after restructuring costs and reversal of impairment of fixed assets	**3,039**	**(3,213)**	**525**	**284**
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	437	480	26	29
Unallocated				
Total				
Capital expenditure	**528**	**1,052**	**193**	**124**

Total	
Six months ended 31 Dec 2017 $000	Six months ended 31 Dec 2016 $000
75,316	84,278
1,482	2,530
76,798	**86,808**
(1,482)	(2,530)
$75,316	**$84,278**
5,370	1,298
(1,806)	(1,680)
3,564	**(382)**
–	(3,989)
–	1,442
3,564	**(2,929)**
(52)	–
(900)	(800)
2,612	**(3,729)**
(1,504)	(1,489)
241	65
–	3,763
1,349	(1,390)
(341)	1,421
$1,008	**$31**
463	509
5	4
468	**513**
$721	**$1,176**

Notes to the Financial Statements (continued)

For the six months ended 31 December 2017

4. SEGMENT PERFORMANCE (continued)

	Carpets		Wool Acquisition	
	Unaudited As at 31 Dec 2017 $000	Audited As at 30 Jun 2017 $000	Unaudited As at 31 Dec 2017 $000	Audited As at 30 Jun 2017 $000
Reportable segment assets	102,128	113,134	4,119	2,233
Investment in equity-accounted investees				
Total assets				
Reportable segment liabilities	24,349	28,149	2,436	1,318
Unallocated liabilities				
Total liabilities				

The Group's reportable segments are:

- carpets, which comprises the sales and manufacturing of carpets; 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 2017 $000	Six months ended 31 Dec 2016 $000
Revenue		
New Zealand	41,399	47,138
Australia	30,442	32,392
Rest of the world	3,475	4,748
	$75,316	**$84,278**

	As at 31 Dec 2017 $000	As at 30 Jun 2017 $000
Non-current assets		
New Zealand	66,608	65,946
Australia	850	2,561
	$67,458	**$68,507**

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 2017 $000	Audited As at 30 Jun 2017 $000
106,247	115,367
23,707	23,490
$129,954	**$138,857**
26,785	29,467
34,100	41,500
$60,885	**$70,967**

Notes to the Financial Statements (continued)

For the six months ended 31 December 2017

5. EQUITY-ACCOUNTED INVESTEES

The details relating to the Group's interest in equity-accounted investees (being 27.5%-owned Cavalier Wool Holdings Limited and 50%-owned CWS Assets Limited (CWSA)) are set out below:

	Six months ended 31 Dec 2017 $000	Six months ended 31 Dec 2016 $000
Carrying value as at 1 July	23,490	23,175
Share of profit after tax	241	65
Share of changes in fair value of cash flow hedges (net of tax)	(24)	(82)
Dividends received	–	(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	**$23,707**	**$23,671**

6. REVENUE

	Six months ended 31 Dec 2017 $000	Six months ended 31 Dec 2016 $000
Sales of goods	75,251	84,132
Provision of installation services	65	146
Total revenue	**$75,316**	**$84,278**

7. OTHER INCOME AND GAINS

	Six months ended 31 Dec 2017 $000	Six months ended 31 Dec 2016 $000
Rentals received	2	12
Dividends received	1	1
Net gain on sale of property, plant and equipment	73	3
Total other income and gains	**$76**	**$16**

8. EXPENSES

Profit/(loss) before tax includes the following:

	Six months ended 31 Dec 2017 $000	Six months ended 31 Dec 2016 $000
Depreciation	$1,806	$1,680
Operating lease and rental costs	$1,792	$1,916

9. CAPITAL EXPENDITURE COMMITMENTS

	As at 31 Dec 2017 $000	As at 30 Jun 2017 $000
Capital expenditure commitments	–	$188

10. CONTINGENT LIABILITIES

	As at 31 Dec 2017 $000	As at 30 Jun 2017 $000
Bank guarantees in respect of operating leases and other commitments	$1,224	$1,347

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 2017 was $175,000 (six months ended 31 December 2016 $249,000).

No dividends were declared by, and received from, CWH during the six months ended 31 December 2017 (six months ended 31 December 2016 – refer to Note 5).

Disclosure of Non-GAAP Financial Information

For the six months ended 31 December 2017

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

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

	Six months ended 31 Dec 2017		
	GAAP $000	Adjustments $000	Normalised $000
Revenue	**$75,316**	**–**	**$75,316**
EBITDA	4,418	–	4,418
Depreciation	(1,806)	–	(1,806)
EBIT	2,612	–	2,612
Net interest expense	(1,504)	–	(1,504)
Share of profit after tax of equity-accounted investee	241	140	381
Profit before tax	1,349	140	1,489
Tax expense	(341)	–	(341)
Profit after tax	**$1,008**	140	1,148
Abnormal net loss after tax		(140)	(140)
Profit after tax (GAAP)		**–**	**$1,008**

Analysis of adjustments	Profit/(loss) before tax $000	Tax effect $000	Profit/(loss) after tax $000
Scour restructuring costs	(140)	–	(140)
	$(140)	**–**	**$(140)**

Disclosure of Non-GAAP Financial Information (continued)

For the six months ended 31 December 2017

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

	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
	$1,194	**$713**	**$1,907**

Corporate Directory

Board of Directors:

Grant Biel B.E. (Mech.) *Non-independent*	Member of Audit, Remuneration and Nomination Committees
Alan Clarke B.Sc.(Hons), MBA, CFInstD *Independent*	Deputy Chairman of the Board of Directors Chairman of Remuneration Committee Member of Audit and Nomination Committees
Sarah Haydon B.Sc., FCA, CMInstD *Independent*	Chairman of the Board of Directors Chairman of Nomination Committee Member of Audit and Remuneration Committees
Dianne McAteer B.Com., MBA, CMInstD *Independent*	Member of Audit, Remuneration and Nomination Committees
John Rae B.Com., LLB, CMInstD *Independent*	Chairman of Audit Committee Member of Remuneration 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

Corporate Directory (continued)

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


CAVALIER
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