CAVALIER
CORPORATION

Half Year Report 2019

With operations going back 60 years, Cavalier is well positioned to build a great flooring business founded on our heritage and showcasing New Zealand wool to the world.

Our focus is on manufacturing and marketing high quality, high end flooring, particularly woollen products. We will continue to lead in innovation, building on our established and proven expertise to make some of the world's best carpet.

We have made considerable changes to our business in the past few years and now have a stronger platform to build on our heritage. We stepped into FY19 with a clear purpose and a determination that we can move our Company forward into growth and delivering shareholder value.

We are pleased to deliver an improved result for HY19.

On behalf of the Board and management of Cavalier Corporation (NZX: CAV), we are pleased to present the FY19 Half Year Report, including the financial statements, for the period to 31 December 2018:

Alan Clarke
Chairman

Paul Alston
Chief Executive Officer

21 February 2019

CAVALIER BREMWORTH

NORMAN ELLISON CARPETS

ELCODIRECT WOOL BUYERS

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FINANCIAL SUMMARY

For the six months ended 31 December 2018 (Unaudited)

	Unaudited Six months ended 31 Dec 2018 $000	Unaudited Six months ended 31 Dec 2017 $000	Audited Year ended 30 Jun 2018 $000
Revenue	**$69,996**	**$75,316**	**$148,120**
EBITDA (normalised)[1]	4,624	4,418	9,998
Depreciation	(1,755)	(1,806)	(3,561)
EBIT (normalised)[1]	2,869	2,612	6,437
Net interest expense	(1,045)	(1,504)	(2,798)
Share of profit after tax of equity-accounted investees (normalised)[1]	644	381	1,419
Profit before tax (normalised)[1]	2,468	1,489	5,058
Tax expense	(537)	(341)	(1,084)
Profit after tax (normalised)[1]	**1,931**	**1,148**	**3,974**
Abnormal net gains/(losses) after tax[1]	(11,964)	(140)	107
Profit/(Loss) after tax (GAAP)	**$(10,033)**	**$1,008**	**$4,081**
Net cash flow from operating activities	**$2,405**	**$7,542**	**$12,143**
Basic and diluted earnings per share (cents) – based on weighted average number of shares outstanding of 68,679,098			
Normalised[1]	**2.8**	**1.7**	**5.8**
GAAP	**(14.6)**	**1.5**	**5.8**
Return on average shareholders' equity (%)			
Normalised[1]	**2.9%**	**1.7%**	**5.7%**
GAAP	**(14.9)%**	**1.5%**	**5.7%**

	Unaudited As at 31 Dec 2018	Unaudited As at 31 Dec 2017	Audited As at 30 Jun 2018
Net tangible asset backing per share ($)	**$0.81**	**$0.89**	**$0.94**
Equity to total assets (%)	**58.0%**	**53.1%**	**54.3%**
Net interest-bearing debt to equity ratio	**22:78**	**33:67**	**29:71**

[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 25 to 27 of the Half Year Report.

FINANCIAL SNAPSHOT

5% ↑
EBITDA

EBITDA up 5% on HY18 with higher carpet earnings offset by reduced earnings from the wool buying business.

68% ↑
Normalised NPAT*

68% increase in normalised NPAT* to $1.9m.

$12.1m
Reduction in net debt

Net debt reduced to $17.3m (down 41% during the period).

26% ↑

Gross margin improved to 26% (HY18: 23%).

Revenue and sales

Revenue impacted by softer market conditions, particularly of lower margin synthetic carpet.

Sales of higher margin wool carpets have grown year on year, as Cavalier increases its focus on the high end of the market.

Operating expenses

Operating expenses decreased with further gains being targeted following the 2017 restructure.

HY19 key events

Half year result at the top end of guidance as Cavalier benefits from a more efficient organisational structure and a strategic focus on high quality, higher margin wool carpets.

The Company notes that market softness has continued into the second half of the year, particularly in Australia.

$13.3m from sale of Cavalier's 27.5% in its wool scouring business (Cavalier Wool Holdings, CWH) and the associated property.

Entered into **long-term scouring arrangement** with CWH.

Retirement of Director, **Sarah Haydon,** at the 2018 Annual Meeting.

Embarked on **inaugural shareholder roadshow** to six regional centres across New Zealand.

Post-period end: Exhibited at Domotex global flooring show in Germany for the first time.

* Normalised NPAT is a non-GAAP measure and excludes the $12.0m non-cash write down on the sale of the 27.5% in Cavalier Wool Holdings and associated property at the end of September 2018.

Alan Clarke
Chairman

Paul Alston
Chief Executive Officer

Chairman & Chief Executive Officer's Review

After the past few years of change, Cavalier is now well positioned to continue growing and taking advantage of opportunities in the high end, high quality flooring market, particularly in woollen carpets. We have a more efficient manufacturing base, a new strategy, strong heritage brands in Cavalier Bremworth and Norman Ellison, and an experienced management team and Board.

Our manufacturing operations now span Whanganui, Napier and Auckland and we have sales offices in Auckland, Wellington, Christchurch, Sydney, Melbourne, Brisbane, Adelaide and Perth. We also own wool buying business Elco Direct, which has a loyal customer base throughout the North Island.

We are and will remain a proud and highly successful manufacturer – but we will also ensure that we make desirable carpets that our customers want and which generate strong and sustainable margins.

The fruits of our hard work are now starting to be seen in our financial results, as we deliver improving performance and increasing value for our shareholders.

During HY19, we remained focused on business fundamentals and our three strategic pillars – Sales, Marketing and Product Development and People.

After the past few years of change, *Cavalier* is now well positioned to continue growing and taking advantage of opportunities in the high end, high quality flooring market, particularly in woollen carpets.

Sales

Sales remain a priority and we rolled out a new sales strategy across Australia and New Zealand and continued to work closely with our trade customers. Anecdotally, we know they are finding current conditions challenging, particularly in Australia where softening consumer confidence is affecting flooring sales, particularly in the low margin, synthetic end of the market. Despite this, demand for our high end wool carpets is up year on year, with Cavalier reporting one of its highest sales months yet for our high end felted carpets.

We noted at the end of FY18 that while our home markets of New Zealand and Australia remain of importance, we also saw opportunities in the wider global market. The market research report we commissioned last year identified significant opportunities for our high end wool carpet in a number of international markets, particularly the UK and North America. While we are taking a very measured approach to entry into these markets, we are excited about their potential.

In January this year, Cavalier displayed at Domotex Germany, the largest and most important flooring trade show globally, for the first time. Feedback on our new innovative products was very encouraging, we increased our understanding of the competitive market place and we acquired some strong potential leads which we will be investigating further. It was pleasing to see that what we are doing in product development at Cavalier is as good as, if not better than, global leaders in the industry.

Marketing and Product Development

Our marketing and product development efforts are centred around our new high margin strategic focus – particularly wool. For the past two years we have been challenging the product development team to create new and exciting products with a point of difference and we will be progressively launching these into the market over the next 12 months. Investment in research and development and creating ranges that command a premium is a priority and critical for our success.

We continue to see increasing awareness of the environmental benefits of wool – nature's miracle fibre – and this bodes well for Cavalier in the long term as customers seek out natural woollen products.

We are seeing a global resurgence in demand for high end woollen flooring, and are well placed to take advantage of this.

People

Cavalier was one of the first companies in New Zealand to pay women equal rates to men, and to allow women to work the night shift. This focus on people continues today. Strengthening and building our organisational culture is a priority and we are putting processes and resources in place to support this.

We are focused on attracting key talent and growing and retaining talented people. Having a great culture within our business is essential.

Outlook

We are seeing a global resurgence in demand for high end woollen flooring, and are well placed to take advantage of this with a renewed focus on high quality, high margin woollen flooring products, a more efficient manufacturing base and a strong financial platform.

However, market conditions on both sides of the Tasman are becoming increasingly difficult with reduced consumer confidence and lower flooring sales. Confidence in Australia is particularly low and sales are softening. These conditions are expected to continue and will make for a challenging FY19 second half.

In addition, Cavalier will no longer have investment earnings from CWH which contributed $1.0m to NPAT in the FY18 second half.

We will continue to strengthen our business including investing in our core business operations, particularly into a new IT system, customer relationships, an expanding global presence, innovative new product development, as well as exploring investment opportunities to grow our market presence.

We are building on the success of our Cavalier Bremworth World of Difference positioning, and have a number of exciting initiatives underway to build our market share in our home markets of Australia and New Zealand, as well as new opportunities offshore.

While our second half will present some challenges, our direction and our opportunity are clear. Full year guidance for FY19 will be provided once trading patterns and results are established.

We thank shareholders for your continued support.

Alan Clarke
Chairman

Paul Alston
Chief Executive Officer

21 February 2019

OUR FOCUS

Our focus is on being a manufacturer and marketer of high quality environmentally responsible carpet solutions, with a wool bias – all based on Cavalier's proven and differentiated position as an innovator of high quality flooring solutions.

HY19 Financial Review

Six months ended 31 December Unaudited	2018 $000	2017 $000
Revenue	**$69,996**	**$75,316**
EBITDA (normalised)[1]	**4,624**	**4,418**
Depreciation	(1,755)	(1,806)
EBIT (normalised)[1]	**2,869**	**2,612**
Net interest expense	(1,045)	(1,504)
Share of equity-accounted investee after tax profit (normalised)[1]	644	381
Profit before tax (normalised)[1]	**2,468**	**1,489**
Income tax	(537)	(341)
Profit after tax (normalised)[1]	**1,931**	**1,148**
Abnormal losses after tax	(11,964)	(140)
Profit/(Loss) after tax (GAAP)	**$(10,033)**	**$1,008**
Earnings per share (cents) (normalised)[1]	**2.8**	**1.7**
Earnings per share (cents) (GAAP)	**(14.6)**	**1.5**

[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 25 to 27 of the Half Year Report.

Cavalier has reported a half year result at the top end of guidance as the Company benefits from a more efficient organisational structure and a strategic focus on high quality, higher margin wool carpets.

As previously signalled, revenue of $70.0m was down 7% on the prior year as softer market conditions impacted on sales, particularly of lower margin synthetic carpets and as an increasing emphasis was placed on marketing high end woollen carpets. Pleasingly, demand for Cavalier's high end wool carpets was up year on year, with the Company reporting one of its highest sales months yet for its high end felted carpets, while lower margin synthetic sales decreased in line with Cavalier's new strategic focus.

In spite of lower revenue, EBITDA was up 5% on the prior comparative half year (HY18) to $4.6m. The carpet business continues to benefit from lower wool prices which are being driven down due to decreased Chinese demand for coarser carpet wool. Conversely however, and while a much smaller part of Cavalier's business, this has adversely impacted sales and margins for Cavalier's wool buying business.

Including the non-cash write down of $12.0m on Cavalier's carrying value of its 27.5% in Cavalier Wool Holdings (CWH), following the sale at the end of September 2018, the Company reported a net loss after tax of $10.0m.

Excluding the non-cash write down, Cavalier delivered a 68% increase in normalised net profit after tax to $1.9m (HY18: $1.1m). This included a non-cash contribution from the investment in CWH for three months prior to its sale. Lower interest expense as a consequence of significantly reduced debt and improved earnings from the since-sold wool scouring operation make up the majority of the improvement in normalised NPAT.

Operating expenses decreased with further gains being targeted following the 2017 restructure. Increased investment is being made into direct and indirect marketing as the Company promotes its high end offer in New Zealand, Australia and overseas markets, as well as into people to support Cavalier's growth strategy. Gross margin improved to 26% (HY18: 23%).

Financial Position

Cavalier's financial position continues to improve, with equity to total assets of 58.0% and leverage (being net debt to total capital employed) of 21.7% as at 31 December 2018 (30 June 2018: 54.3% and 28.9% respectively).

Total assets and net debt employed by the business were down largely as a result of the sale of the Company's interest in, and property held by, the wool scouring business.

Cash Flows

Cash inflow from operations of $2.4m for the period is down on the previous comparable of $7.5m mainly as a result of the changes in working capital employed in the business – in particular, new product introductions to support the refocus on Cavalier's high end offer and the flow on impact on inventory.

Cash inflow from investing activities was a significant $9.7m, with $11.8 million from the sale of the wool scouring business, offset by a net $2.1m investment in plant and equipment to support core businesses.

As a consequence, Cavalier was able to reduce net bank debt by $12.1m to $17.3m, enabling it to build a stronger financial base from which to grow the core carpet business and insulate it from external factors.

This reduced debt impacted positively on interest expense and normalised NPAT as a consequence.

Dividends

While no interim dividend has been declared, Cavalier remains committed to the resumption of dividends as part of its long term financial strategy, subject to dividend payments being sustainable and supported by consistent earnings and a strong balance sheet.

Condensed Consolidated Income Statement

Six months ended 31 December 2018 (Unaudited)

	Notes	Unaudited Six months ended 31 Dec 2018 $000	Unaudited Six months ended 31 Dec 2017 $000
Revenue	4	69,996	75,316
Cost of sales		(51,741)	(57,914)
Gross profit		**18,255**	**17,402**
Other income and gains	5	35	76
Distribution expenses		(12,028)	(11,806)
Administration expenses		(3,393)	(3,060)
Results from operating activities		**2,869**	**2,612**
Net finance costs		(1,045)	(1,504)
Share of profit of equity-accounted investees (net of tax)	8	644	241
Loss on sale of interest in, and property held by, equity-accounted investees (net of tax)	8	(11,964)	–
Profit/(Loss) before tax	6	**(9,496)**	**1,349**
Tax expense		(537)	(341)
Profit/(Loss) after tax for the period		**$(10,033)**	**$1,008**
Profit/(Loss) after tax attributable to:			
Shareholders of Cavalier Corporation Limited		(10,033)	1,008
Non-controlling interests		–	–
Profit/(Loss) after tax for the period		**$(10,033)**	**$1,008**
Basic and diluted earnings per share (cents)		**(14.6)**	**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 17 to 24 and the previous year's annual financial statements.

Condensed Consolidated Statement of Comprehensive Income

Six months ended 31 December 2018 (Unaudited)

	Note	Unaudited Six months ended 31 Dec 2018 $000	Unaudited Six months ended 31 Dec 2017 $000
Profit/(Loss) after tax for the period		**(10,033)**	**1,008**
Other comprehensive income that may be reclassified subsequently to profit or loss			
Effective portion of changes in fair value of cash flow hedges		894	45
Net change in fair value of cash flow hedges transferred to profit or loss		(376)	65
Tax on other comprehensive income		(145)	(31)
Share of fair value of cash flow hedges of equity-accounted investee (net of tax)	8	72	(24)
Foreign currency translation differences for foreign operations		–	116
		445	**171**
Other comprehensive income not reclassified subsequently to profit or loss		**–**	**–**
Other comprehensive income for the period, net of tax		**445**	**171**
Total comprehensive income for the period		**$(9,588)**	**$1,179**
Total comprehensive income attributable to:			
Shareholders of Cavalier Corporation Limited		(9,588)	1,179
Non-controlling interests		–	–
Total comprehensive income for the period		**$(9,588)**	**$1,179**

This statement is to be read in conjunction with the Notes on pages 17 to 24 and the previous year's annual financial statements.

Condensed Consolidated Statement of Changes in Equity

Six months ended 31 December 2018 (Unaudited)

	Notes	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**	**(70)**	**(1,420)**	**51,866**	**72,222**
Change in accounting policy	1	–	–	–	(304)	(304)
Total equity at beginning of the period after adjusting for impact of change in accounting policy		**21,846**	**(70)**	**(1,420)**	**51,562**	**71,918**
Total comprehensive income for the period						
Loss after tax		–	–	–	(10,033)	(10,033)
Other comprehensive income that may be reclassified subsequently to profit or loss						
Changes in fair value of cash flow hedges (net of tax)		–	373	–	–	373
Share of fair value of cash flow hedges of equity-accounted investee (net of tax)	8	–	72	–	–	72
		–	**445**	**–**	**–**	**445**
Other comprehensive income not reclassified subsequently to profit or loss		**–**	**–**	**–**	**–**	**–**
Total other comprehensive income		**–**	**445**	**–**	**–**	**445**
Total comprehensive income for the period		**–**	**445**	**–**	**(10,033)**	**(9,588)**
Total equity at end of the period		**$21,846**	**$375**	**$(1,420)**	**$41,529**	**$62,330**

This statement is to be read in conjunction with the Notes on pages 17 to 24 and the previous year's annual financial statements.

	Note	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 of equity-accounted investee (net of tax)	8	–	(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 17 to 24 and the previous year's annual financial statements.

Condensed Consolidated Statement of Financial Position

As at 31 December 2018 (Unaudited)

	Note	Unaudited 31 Dec 2018 $000	Audited 30 Jun 2018 $000
ASSETS			
Property, plant and equipment		35,502	35,142
Intangible assets		2,362	2,362
Investment in equity-accounted investees	8	1,500	24,544
Deferred tax asset		4,303	4,971
Total non-current assets		**43,667**	**67,019**
Cash and cash equivalents		599	2,111
Trade receivables, other receivables and prepayments		11,401	15,582
Inventories		50,499	47,321
Derivative financial instruments		1,234	971
Total current assets		**63,733**	**65,985**
Total assets		**$107,400**	**$133,004**
EQUITY			
Share capital		21,846	21,846
Cash flow hedging reserve		375	(70)
Foreign currency translation reserve		(1,420)	(1,420)
Retained earnings		41,529	51,866
Total equity attributable to equity holders of the Company		**62,330**	**72,222**
LIABILITIES			
Loans and borrowings		17,900	27,500
Employee benefits		877	911
Provisions		715	1,118
Total non-current liabilities		**19,492**	**29,529**
Loans and borrowings		-	4,000
Trade creditors and accruals		18,931	19,490
Provisions		931	2,214
Employee entitlements		4,471	4,076
Deferred income		34	47
Derivative financial instruments		554	593
Tax payable		657	833
Total current liabilities		**25,578**	**31,253**
Total liabilities		**45,070**	**60,782**
Total equity and liabilities		**$107,400**	**$133,004**

This statement is to be read in conjunction with the Notes on pages 17 to 24 and the previous year's annual financial statements.

Condensed Consolidated Statement of Cash Flows

Six months ended 31 December 2018 (Unaudited)

	Notes	Unaudited Six months ended 31 Dec 2018 $000	Unaudited Six months ended 31 Dec 2017 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		71,223	76,960
Cash paid to suppliers and employees		(67,549)	(69,136)
Dividends received		2	1
Other receipts		2	2
GST (paid)/refunded		(25)	850
Interest paid		(1,176)	(1,503)
Income tax (paid)/refunded		(72)	368
Net cash flow from operating activities		**2,405**	**7,542**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		100	148
Proceeds from sale of interest in, and property held by, equity-accounted investees	8	10,553	–
Dividends received from equity-accounted investee	8	1,243	–
Acquisition of property, plant and equipment		(2,184)	(721)
Net cash flow from investing activities		**9,712**	**(573)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in bank loans and borrowings		(13,600)	(7,400)
Net cash flow from financing activities		**(13,600)**	**(7,400)**
NET DECREASE IN CASH AND CASH EQUIVALENTS		(1,483)	(431)
Cash and cash equivalents at beginning of the period		2,111	1,255
Effect of exchange rate changes on cash		(29)	19
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		**$599**	**$843**

This statement is to be read in conjunction with the Notes on pages 17 to 24 and the previous year's annual financial statements.

Condensed Consolidated Statement of Cash Flows (continued)

Six months ended 31 December 2018 (Unaudited)

	Unaudited Six months ended 31 Dec 2018 $000	Unaudited Six months ended 31 Dec 2017 $000
RECONCILIATION OF PROFIT/(LOSS) WITH NET CASH FLOW FROM OPERATING ACTIVITIES		
Profit/(Loss) after tax for the period	**(10,033)**	**1,008**
Add/(Deduct) non-cash and other items:		
Depreciation	1,755	1,806
Share of profit of equity-accounted investees	(644)	(241)
Loss on sale of interest in, and property held by, equity-accounted investees	11,964	–
Deferred tax asset	523	75
Employee benefits	361	112
Deferred income	(13)	13
Provisions	(1,686)	(618)
Net gain on sale of property, plant and equipment	(31)	(73)
Net (gain)/loss on foreign currency balance	29	(19)
Changes in working capital items:		
Trade and other receivables and prepayments	1,454	2,039
Inventories	(1,289)	4,665
Tax receivable/payable	(58)	634
Trade creditors and accruals	(143)	(1,985)
Derivative financial instruments	216	126
Net cash flow from operating activities	**$2,405**	**$7,542**

This statement is to be read in conjunction with the Notes on pages 17 to 24 and the previous year's annual financial statements.

Notes to the Financial Statements

For the six months ended 31 December 2018

1. GENERAL INFORMATION

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") and the Group's investment in equity-accounted investees as at, and for the six months ended, 31 December 2018.

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, among other things, the interim financial statements covering the Group.

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

All Group subsidiaries are wholly-owned.

The Group had a 27.5% interest in commission woolscourer, Cavalier Wool Holdings Limited, which it sold during the six months ended 31 December 2018 together with the property held by 50%-owned asset-owning entity, CWS Assets Limited.

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 2017, are unaudited. The comparative information as at 30 June 2018 is audited.

The interim financial statements were approved for issue by the Board of Directors of the Company on 21 February 2019.

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 2018.

Accounting policies

The interim financial statements should be read in conjunction with the annual financial statements for the year ended 30 June 2018 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, with the exception that the Group adopted NZ IFRS 9 Financial Instruments (NZ IFRS 9) and NZ IFRS 15 Revenue from Contracts with Customers (NZ IFRS 15) during the six months ended 31 December 2018.

Impact of the adoption of NZ IFRS 9

Effective 1 July 2018, the Group applied NZ IFRS 9 for its accounting of financial instruments, which included the adoption of the expected loss model, as opposed to the incurred loss model under the old standard, for the assessment of trade and other receivables for impairment. Under the new standard, the Group assesses impairment of trade and other receivables on a forward-looking basis, taking into account not only past events and current conditions, but also forecast of future economic conditions.

It has been determined that the impact of the new standard on the assessment of trade and other receivables for impairment is not material.

The Group elected to apply the cumulative effect method, with no restatement of comparative period amounts, in applying NZ IFRS 9. The cumulative effect of applying the new standard is nil, with no adjustment to the opening balance of retained earnings recognised in the Condensed Consolidated Statement of Changes in Equity for the six months ended 31 December 2018 required as a consequence.

Impact of the adoption of NZ IFRS 15

Effective 1 July 2018, the Group also applied NZ IFRS 15 for its accounting of revenue from contracts with customers. Based on the five-step assessment performed by the Group pursuant to NZ IFRS 15, the impact of the new standard is not material. All of the revenue earned by the Group is derived from the satisfaction of a single performance obligation for each contract, which can be for the sale of carpet, carpet yarn or wool. This revenue has historically been recognised at the time there is the transfer of the risks and rewards of ownership of the products sold to the customer. It has been determined that revenue is now recognised when the customer obtains control of the products sold, typically on the earlier of payment or delivery.

It has also been determined that there are:

- no material changes to the accounting for rebates, discounts or any other variable consideration under NZ IFRS 15; and
- no financing components within the Group's sales arrangements.

The new accounting policy on revenue is disclosed in Note 4.

The Group also elected to apply the cumulative effect method, with no restatement of comparative period amounts, in applying NZ IFRS 15. The cumulative effect of applying the new standard is dealt with as an adjustment to the opening balance of retained earnings recognised in the Condensed Consolidated Statement of Changes in Equity for the six months ended 31 December 2018.

The Group's revenue recognition policy remains largely the same with the exception that revenue is now recognised when the customer obtains control of the products sold, typically on the earlier of payment or delivery.

The adoption of NZ IFRS 15 has impacted the timing of when some revenue is recognised, resulting in the following adjustments to opening retained earnings.

	$000
Retained earnings as at 1 July 2018 before NZ IFRS 15 adjustments	51,866
Change in revenue	(2,371)
Change in cost of sales	1,949
Change in tax expense	118
Retained earnings as at 1 July 2018 after NZ IFRS 15 adjustments	$51,562

The table below shows the effect of the adoption of NZ IFRS 15 on 1 July 2018 on the Condensed Consolidated Statement of Financial Position:

	As previously reported $000	NZ IFRS 15 reclassifications $000	Restated $000
Assets			
Trade receivables, other receivables and prepayments	15,582	(2,727)	12,855
Inventories	47,321	1,889	49,210
Total impact on assets	$62,903	$(838)	$62,065
Liabilities			
Trade creditors and accruals	19,490	(416)	19,074
Tax payable	833	(118)	715
Total impact on liabilities	$20,323	$(534)	$19,789
Retained earnings	$51,866	$(304)	$51,562

Notes to the Financial Statements (continued)

For the six months ended 31 December 2018

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.

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.

The Board of Directors ("Board") notes that these financial forecasts are sensitive to changes in some of the assumptions underlying the forecasts – including sales volumes and margins, manufacturing performances and a number of external factors over which the Group has limited control over, such as exchange rates and raw material input costs.

The Board also notes the progress that is being made to strengthen the Group's financial position and reduce bank loans and borrowings and believes that the Group will be able to generate the earnings and cash flows to comply with the Bank's covenants and meet its contractual obligations as these become due.

3. SEGMENT PERFORMANCE

Unaudited

External revenue
Inter-segment revenue
Total revenue
Elimination of inter-segment revenue
Consolidated revenue
Segment result before depreciation
Depreciation
Segment result after depreciation
Elimination of inter-segment profits
Unallocated corporate costs
Results from operating activities
Net finance costs
Share of profit of equity-accounted investees (net of tax)
Loss on sale of interest in, and property held by, equity-accounted investees (net of tax)
Profit/(Loss) before tax
Tax expense
Profit after tax for the period
Employee numbers
Operations
Unallocated
Total
Capital expenditure

Reportable segment assets
Investment in equity-accounted investees
Total assets
Reportable segment liabilities
Unallocated liabilities
Total liabilities

Carpets		Wool		Total	
Six months ended 31 Dec 2018 $000	Six months ended 31 Dec 2017 $000	Six months ended 31 Dec 2018 $000	Six months ended 31 Dec 2017 $000	Six months ended 31 Dec 2018 $000	Six months ended 31 Dec 2017 $000
61,479	65,959	8,517	9,357	69,996	75,316
–	–	1,761	1,482	1,761	1,482
$61,479	**$65,959**	**$10,278**	**$10,839**	**71,757**	**76,798**
				(1,761)	(1,482)
				$69,996	**$75,316**
5,459	4,789	14	581	5,473	5,370
(1,691)	(1,750)	(64)	(56)	(1,755)	(1,806)
3,768	**3,039**	**(50)**	**525**	**3,718**	**3,564**
				21	(52)
				(870)	(900)
				2,869	**2,612**
				(1,045)	(1,504)
				644	241
				(11,964)	–
				(9,496)	**1,349**
				(537)	(341)
				$(10,033)	**$1,008**
438	437	30	26	468	463
				5	5
				473	**468**
1,812	**528**	**372**	**193**	**$2,184**	**$721**

Unaudited As at 31 Dec 2018 $000	Audited As at 30 Jun 2018 $000	Unaudited As at 31 Dec 2018 $000	Audited As at 30 Jun 2018 $000	Unaudited As at 31 Dec 2018 $000	Audited As at 30 Jun 2018 $000
101,207	104,665	4,693	3,795	105,900	108,460
				1,500	24,544
				$107,400	**$133,004**
24,198	26,122	2,972	3,160	27,170	29,282
				17,900	31,500
				$45,070	**$60,782**

Notes to the Financial Statements (continued)

For the six months ended 31 December 2018

3. **SEGMENT PERFORMANCE** (continued)

The Group's reportable segments are:

- carpets, which comprises the sales and manufacturing of carpets; and
- wool, which covers the acquisition and sale of wool.

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 2018 $000	Six months ended 31 Dec 2017 $000
Revenue		
New Zealand	38,851	41,399
Australia	28,145	30,442
Rest of the world	3,000	3,475
	$69,996	**$75,316**

	As at 31 Dec 2018 $000	As at 30 Jun 2018 $000
Non-current assets		
New Zealand	43,089	66,522
Australia	578	497
	$43,667	**$67,019**

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.

4. REVENUE

	Six months ended 31 Dec 2018 $000	Six months ended 31 Dec 2017 $000
Sales of goods	69,996	75,251
Provision of installation services	–	65
Total revenue	**$69,996**	**$75,316**

Accounting policy
Revenue is recognised when or as performance obligations are satisfied by transferring control of the products sold to the customer at the transaction price specified in the contract. Control typically transfers to the customer on the earlier of payment for, or delivery of, the product. The transaction price includes all amounts which the Group expects to be entitled to, net of goods and services tax and other indirect taxes, expected rebates and discounts. Where applicable, rebates and/or discounts are included within the consideration using an estimation typically based on the most likely method and are only recognised to the extent that it is highly probable that a significant reversal will not occur.

5. OTHER INCOME AND GAINS

	Six months ended 31 Dec 2018 $000	Six months ended 31 Dec 2017 $000
Rentals received	2	2
Dividends received	2	1
Net gain on sale of property, plant and equipment	31	73
Total other income and gains	**$35**	**$76**

6. EXPENSES

Profit/(Loss) before tax includes the following:

	Six months ended 31 Dec 2018 $000	Six months ended 31 Dec 2017 $000
Depreciation	$1,755	$1,806
Operating lease and rental costs	$1,373	$1,792

7. CAPITAL EXPENDITURE COMMITMENTS

	As at 31 Dec 2018 $000	As at 30 Jun 2018 $000
Capital expenditure commitments	$435	$397

8. EQUITY-ACCOUNTED INVESTEES

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

	Six months ended 31 Dec 2018 $000	Six months ended 31 Dec 2017 $000
Carrying value as at 1 July	24,544	23,490
Share of profit after tax	644	241
Share of changes in fair value of cash flow hedges (net of tax)	72	(24)
Dividends received	(1,243)	–
Proceeds of sale of interest in CWH and property in CWSA	(10,553)	–
Loss on sale of interest in CWH and property in CWSA	(11,964)	–
Carrying value as at 31 December	**$1,500**	**$23,707**

The Group sold its interest in 27.5%-owned CWH and the property held by 50%-owned CWSA during the period.

9. CONTINGENT LIABILITIES

	As at 31 Dec 2018 $000	As at 30 Jun 2018 $000
Bank guarantees in respect of operating leases and other commitments	$2,246	$2,095

10. RELATED PARTY TRANSACTIONS

During the period, the Group did not enter into any material contracts involving related parties or directors' interests. No amounts owed by related parties have been written off or forgiven during the period. Apart from directors' fees, key executive remuneration and procurement of wool scouring services from CWH, there have been no related party transactions.

Disclosure of Non-GAAP Financial Information

For the six months ended 31 December 2018

The half year report for the six months ended 31 December 2018 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 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 taken into account all of 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 below);
  - 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'.

Disclosure of Non-GAAP Financial Information (continued)

For the six months ended 31 December 2018

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

	Six months ended 31 Dec 2018		
	GAAP $000	**Adjustments $000**	**Normalised $000**
Revenue	**$69,996**	**–**	**$69,996**
EBITDA	4,624	–	4,624
Depreciation	(1,755)	–	(1,755)
EBIT	2,869	–	2,869
Net interest expense	(1,045)	–	(1,045)
Share of profit of equity-accounted investees (net of tax)	644	–	644
Loss on sale of interest in, and property held by, equity-accounted investees (net of tax)	(11,964)	11,964	–
Profit/(Loss) before tax	(9,496)	11,964	2,468
Tax expense	(537)	–	(537)
Profit/(Loss) after tax	**($10,033)**	11,964	1,931
Abnormal net loss after tax		(11,964)	(11,964)
Loss after tax (GAAP)		**–**	**$(10,033)**

Analysis of adjustments	**Profit/(Loss) before tax $000**	**Tax effect $000**	**Profit/(Loss) after tax $000**
Loss on sale of interest in, and property held by, equity-accounted investees	(11,964)	–	(11,964)
	$(11,964)	**–**	**$(11,964)**

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

	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 of equity-accounted investees (net of tax)	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 merger costs	(140)	–	(140)
	$(140)	**–**	**$(140)**

CORPORATE DIRECTORY

Board of Directors:

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

Founding Shareholder:

The late **Anthony Charles Timpson** ONZM

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Share Registrar:

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road, Auckland 0622, Private Bag 92119, 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, www.normanellison.co.nz, www.normanellison.com.au
Wool Operation	www.elcodirect.co.nz
Share Registrar	www.computershare.co.nz/investorcentre

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