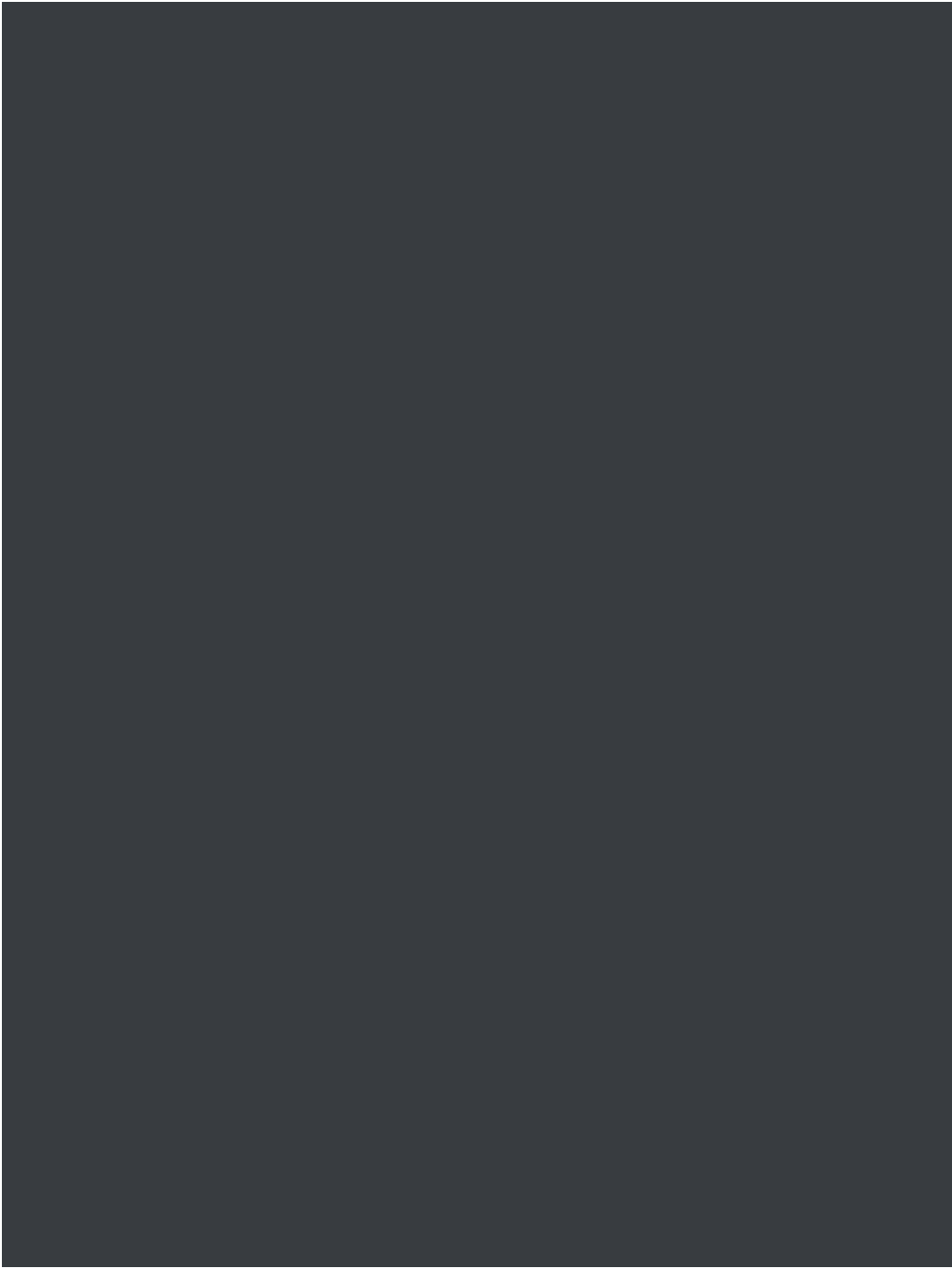


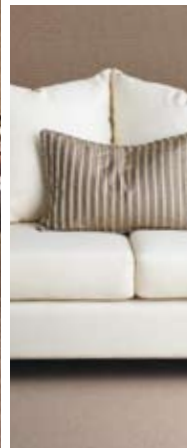
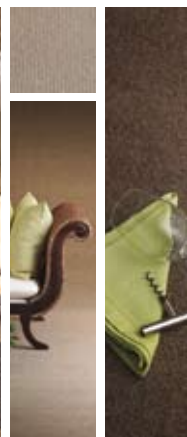
CAVALIER CORPORATION LIMITED

Cavalier
CORPORATION

08

HALF YEAR REPORT TO 31 DECEMBER 2008





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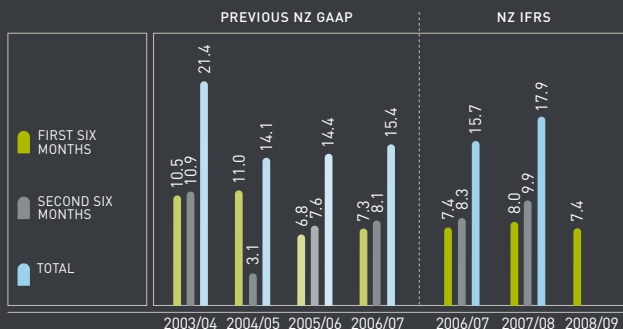
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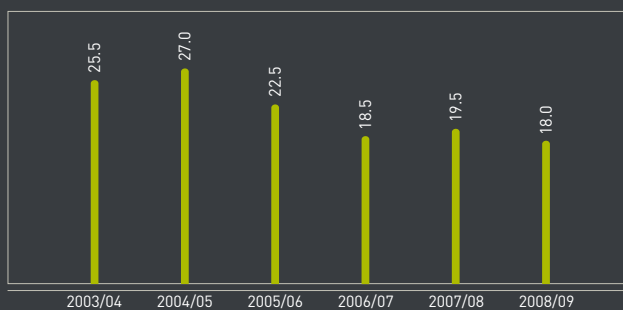
FINANCIAL SUMMARY

	UNAUDITED SIX MONTHS ENDED		AUDITED YEAR ENDED
	31 DEC 2008 \$000	31 DEC 2007 \$000	30 JUNE 2008 \$000
Revenue	\$131,587	\$111,539	\$250,056
Earnings before interest, tax and depreciation	17,952	18,200	39,955
Depreciation	(3,820)	(3,537)	(6,762)
Earnings before interest and tax	14,132	14,663	33,193
Net interest expense	(3,381)	(2,853)	(6,493)
Profit before income tax	10,751	11,810	26,700
Income tax expense	(3,315)	(3,839)	(8,763)
Profit after income tax	\$7,436	\$7,971	\$17,937
Net cash flow from operating activities	\$7,759	\$16,018	\$29,588
Basic and diluted earnings per share (annualised) (cents) – based on weighted average number of shares outstanding during the period of 67,082,444 (31 December 2007 – 65,495,595; 30 June 2008 66,119,929)	22.2	24.3	27.1
Return on average shareholders' equity (annualised) (%)	17.7%	22.0%	22.8%
Dividends paid per share (cents)			
Previous year's final	11.0	10.5	10.5
Current year's first interim	3.0	3.0	3.0
Current year's second interim	-	-	6.0
Total	14.0	13.5	19.5
	UNAUDITED AS AT		AUDITED AS AT
	31 DEC 2008	31 DEC 2007	30 JUNE 2008
Net tangible asset backing per share (\$)	\$1.06	\$1.04	\$1.10
Proprietorship ratio (%)	36.2%	42.4%	38.3%
Net interest-bearing debt to equity ratio	53:47	49:51	50:50

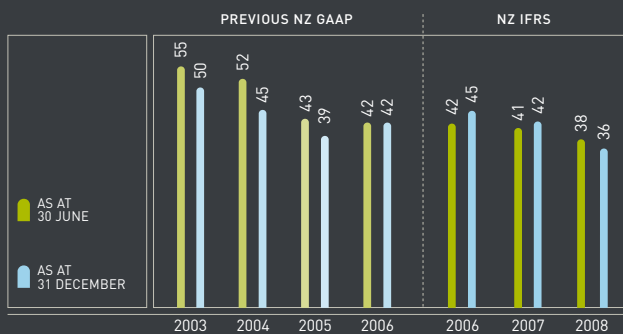
FINANCIAL SUMMARY



OPERATING SURPLUS AFTER TAX¹ [\$ MILLIONS]



DIVIDENDS PAID² (CENTS PER SHARE)



PROPRIETORSHIP RATIO³ (%)

¹ 2004/05 second six months' results net of write-down relating to the Microbial development project of \$5.8 million after tax.

² 2008/09 includes second interim dividend declared and paid after 31 December 2008.

³ 2005 ratios reflect the write-down relating to the Microbial development project. 30 June 2007 proprietorship ratio under previous NZ GAAP which is not shown in the graph was 40%.

DIRECTORS' REPORT

FINANCIAL PERFORMANCE

The Directors of Cavalier Corporation announce an unaudited profit after tax of \$7.4 million for the 6 months to 31 December 2008. This represents a decrease of 7% on the \$8.0 million last year.

Group revenues for the 6 months were \$132 million, an increase of 18% on last year. However, included in this amount was \$29 million relating to the Norman Ellison Carpets (NEC) operation which was purchased in February 2008 and therefore not in last year's comparative amount. On a like-for-like basis, with NEC excluded, Group revenues of \$103 million for the 6 months to December 2008 were down 8% on last year.

FINANCIAL POSITION

Shareholders' equity as at 31 December 2008 stood at \$83 million, which is an improvement of \$10 million on the position last year, but a \$3 million deterioration on the position as at 30 June 2008.

Our debt to equity ratio as at 31 December 2008 was 53:47, compared with 49:51 last year and 50:50 6 months ago.

Debt has increased significantly over the last 6 months through timing of capital expenditure and increasing stock levels associated with the sharp business downturn.

Management and the Board are very conscious that in the current financial turmoil, balance sheet management is crucial, and there are firm plans in place to reduce debt before the end of the financial year.

SEGMENT REVIEWS

CARPET BUSINESS

Carpet turnover for the 6 months to December 2008 of \$114m was 27% ahead of last year. Included in this was \$29 million of turnover from NEC which was acquired in February 2008 and therefore not in last year's comparative. On a like-for-like basis, carpet turnover was down 5%, with the fall in turnover for broadloom carpet offset to a certain extent by a 10% increase in carpet tiles turnover.

Our carpet turnover in the period was largely impacted by a dramatic slowdown in discretionary spending across all market segments as concerns of a global recession weighed heavily on people's confidence and outlook.

Our residential carpets were the first to feel the effects of this uncertainty. This was across both our main markets in NZ and Australia with sales volume down 18% on last year.

But our commercial carpets, by comparison, fared much better as most of the projects supplied had already been committed prior to the recessionary concerns. Unfortunately, there are some ominous signs that this sector is slowing down as well.

EBIT for carpets for the 6 months to December 2008 was \$14.1 million. This was down \$0.9 million, or 6%, on last year due to lower residential carpet sales and the competitive pricing pressures in the marketplace.

WOOL BUSINESS

Turnover of our wool operation for the December half year was \$21.0 million which was down 13% on last year. This was the result of a sizeable reduction in the quantity of wool coming through for scouring because of the reduction in sheep numbers, brought about by farm conversions to dairy and dairy support, and the droughts experienced in our wool growing regions in recent years. Wool and Meat New Zealand had predicted an 8% decrease in wool production for the 2008/09 season, but our scouring volumes in the first half were down 19%. That would indicate either a build-up of wool stocks held by growers in the hope of an improvement in wool prices or much lower sheep numbers. We suspect it is probably a bit of both.

EBIT for our wool operation was \$0.9m, down 21% on last year due in the main to lower volumes of wool through our scours. There were higher returns from wool grease, mainly from a lower NZD, but these were more than offset by the higher costs of labour, energy and imported materials.

Your Board announced on 15 December 2008 that it had reached agreement with David Ferrier – the 7.5% shareholder in our wool scouring operations - on a rationalisation plan aimed at reducing the current excess scouring capacity in the industry. The plan involves the initial acquisition of the two Godfrey Hirst scouring plants by Ferrier, and it is still subject to Commerce Commission and Cavalier shareholder approval. If approved, the plan is to close 3 of the 4 Godfrey Hirst scouring lines and enable, in the process, our scouring operations to secure the additional volume and to enhance their earnings by leveraging off the improved efficiencies from the increased throughput. It will also result in a reduction in Cavalier's interest in the scouring operations from its current 92.5% to 50%.

Because David Ferrier is a related party in the transaction, the Company is required by the NZSX Listing Rules to seek the approval of shareholders. A special shareholders' meeting will be held on 23 February 2009 to facilitate this. Shareholders would have received, in the mail, a pack containing the Chairman's letter, the notice of meeting and an independent appraisal report by PricewaterhouseCoopers.

EARNINGS OUTLOOK

We are in the midst of a global recession, brought on by the global financial and liquidity crises, and only time will tell just what the consequences are and how long it will last. The flow on effects to date have been a severe curtailing of all discretionary spends by consumers, particularly on big ticket items, and a cautious approach by commercial property developers and owners to new projects. This has led to a soft carpet market

which in turn affects our turnover and earnings. Unfortunately, the immediate outlook for Cavalier and all businesses alike is for challenging times ahead. The substantial reductions in interest rates and a host of other stimulatory economic measures being undertaken by the NZ and Australian governments as well as those from numerous other countries may provide some respite, but once again, only time will tell just how effective these will be.

We are entering into uncharted economic territory, and whilst we feel that there is no way of coming up with sensible and reliable earnings forecast in this environment, we also realise the need to keep shareholders informed and have therefore attempted to provide shareholders with some earnings outlook.

On the basis of the uncertainties as explained, we are expressing our earnings outlook for the year to 30 June 2009 as a range from \$11 million tax paid (which would be almost 40% down on last year) to \$13 million tax paid (almost 30% down on last year). This assumes that the very soft trading conditions we have been seeing since October last year continue, but without getting substantially worse. We have made no allowance for the benefits that will arise from the wool scouring rationalisation, as this is still pending Commerce Commission and Cavalier shareholder approval.

We will update shareholders should there be a marked change in this earnings outlook.

DIVIDENDS

The policy of paying dividends three times a year continues.

The Directors have declared a fully imputed second interim dividend for the year ending 30 June 2009 of 4 cents per share, a decrease of 2 cents on the equivalent for the previous year.

This, together with the first interim dividend of 3 cents per share paid in December 2008, brings the total interim dividend (fully imputed) to 7 cents per share, 2 cents down on the previous year's total interim dividend of 9 cents per share.

This second interim dividend will be paid on Friday, 13 March 2009. The share register will close at 5 p.m. on Friday, 6 March 2009 for the purpose of determining entitlement to the dividend and will reopen on Monday, 9 March 2009.

Non-resident shareholders will also be receiving a supplementary dividend of 0.7059 cents per share together with their second interim dividend.



A M James
CHAIRMAN

20 February 2009



W K Chung
MANAGING DIRECTOR

AUDITORS' REVIEW REPORT



TO THE SHAREHOLDERS OF CAVALIER CORPORATION LIMITED

We have reviewed the attached interim financial statements in accordance with the Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand. The financial statements provide information about the past financial performance of Cavalier Corporation Limited and its subsidiaries ("the Group") and its financial position as at 31 December 2008.

DIRECTORS' RESPONSIBILITIES

The Directors of Cavalier Corporation Limited are responsible for the preparation of interim financial statements which give a true and fair view of the financial position of the Group as at 31 December 2008 and the results of its operations and cash flows for the six months ended on that date.

REVIEWERS' RESPONSIBILITIES

It is our responsibility to express an independent opinion on the interim financial statements presented by the Directors and report our opinion to you.

BASIS OF OPINION

A review is limited primarily to enquiries of Group personnel and analytical review procedures applied to the financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Our firm has also provided other services to the Group in relation to taxation and other assurance services. Partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. These matters have not impaired our independence as auditors of the Group. The firm has no other relationship with, or interest in, the Group.

REVIEW OPINION

Based on our review, nothing has come to our attention that causes us to believe that the attached interim financial statements do not give a true and fair view of the financial position of the Cavalier Corporation Limited Group as at 31 December 2008, the results of its operations and cash flows for the six month period ended on that date in accordance with NZ IAS 34 *Interim Financial Reporting*.

Our review was completed on 20 February 2009 and our opinion is expressed as at that date.

A handwritten signature of 'KPMG.' in black ink, with a stylized 'G' and a period. Below the signature, the word 'Auckland' is printed in a bold, sans-serif font.

Auckland

CONDENSED CONSOLIDATED INCOME STATEMENT

NOTES	UNAUDITED SIX MONTHS ENDED 31 DEC 2008 \$000	31 DEC 2007 \$000	AUDITED YEAR ENDED 30 JUNE 2008 \$000	
Continuing operations				
Revenue	3	131,587	111,539	250,056
Cost of sales		(88,061)	(75,056)	(168,961)
Gross profit		43,526	36,483	81,095
Other income		20	79	124
Distribution expenses		(20,197)	(15,005)	(32,072)
Administration expenses		(9,223)	(6,408)	(14,841)
Research and development expenses		-	(480)	(1,108)
Results from operating activities		14,126	14,669	33,198
Finance income		1	8	12
Finance expenses		(3,382)	(2,861)	(6,505)
Net finance costs		(3,381)	(2,853)	(6,493)
Share of profit/(loss) of equity-accounted investee		6	(6)	(5)
Profit before income tax	4	10,751	11,810	26,700
Income tax expense		(3,315)	(3,839)	(8,763)
Profit after tax for the period		\$7,436	\$7,971	\$17,937
Basic and diluted earnings per share (cents)		11.1	12.2	27.1
Weighted average number of shares outstanding during the period (000s)		67,082.4	65,495.6	66,119.9

This statement is to be read in conjunction with the Notes on pages 12 to 23 and the previous year's annual financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	UNAUDITED SIX MONTHS ENDED		AUDITED YEAR ENDED
	31 DEC 2008 \$000	31 DEC 2007 \$000	30 JUNE 2008 \$000
Total equity at beginning of the period	85,104	72,568	72,568
Effective portion of changes in fair value of cash flow hedges	616	569	(573)
Foreign currency translation differences for foreign operations	(1,143)	318	2,527
Income tax on income and expense recognised directly in equity	(182)	(172)	185
Income and expense recognised directly in equity	(709)	715	2,139
Profit after tax for the period	7,436	7,971	17,937
Total recognised income and expense for the period	6,727	8,686	20,076
Dividends paid to equity holders of the Company	(9,392)	(8,842)	(12,867)
Issue of ordinary shares	-	-	5,127
Equity-settled share-based payments	100	100	200
Total equity at end of the period	\$82,539	\$72,512	\$85,104

This statement is to be read in conjunction with the Notes on pages 12 to 23 and the previous year's annual financial statements.

CONDENSED CONSOLIDATED BALANCE SHEET

	NOTES	UNAUDITED		AUDITED
		31 DEC 2008 \$000	31 DEC 2007 \$000	30 JUNE 2008 \$000
ASSETS				
Property, plant and equipment	6	103,554	90,848	99,669
Intangible assets		11,137	4,367	11,137
Investments in equity-accounted investee		175	168	169
Deferred tax asset		1,596	2,766	1,999
Total non-current assets		116,462	98,149	112,974
Cash at bank		4,549	425	335
Trade and other receivables		35,215	29,370	44,217
Inventories		69,897	42,803	64,239
Derivative financial instruments		1,131	879	360
Plant and equipment held for sale		20	-	20
Total current assets		110,812	73,477	109,171
Total assets		\$227,274	\$171,626	\$222,145
EQUITY				
Share capital		17,967	12,840	17,967
Cash flow hedging reserve		44	419	(390)
Foreign currency translation reserve		625	(56)	1,768
Share rights reserve		859	659	759
Retained earnings		63,044	58,650	65,000
Total equity attributable to equity holders of the Company		82,539	72,512	85,104
LIABILITIES				
Loans and borrowings	7	93,000	68,674	81,000
Employee benefits		3,364	2,878	3,317
Other payables		3,049	-	3,049
Deferred income		289	186	227
Provisions		213	125	242
Total non-current liabilities		99,915	71,863	87,835
Bank overdraft	7	161	520	483
Loans and borrowings	11	4,322	1,013	2,697
Trade creditors and accruals		35,986	23,329	40,541
Other payables		3,480	1,701	3,480
Deferred income		38	22	35
Derivative financial instruments		608	312	1,564
Tax payable		225	354	406
Total current liabilities		44,820	27,251	49,206
Total liabilities		144,735	99,114	137,041
Total equity and liabilities		\$227,274	\$171,626	\$222,145

This statement is to be read in conjunction with the Notes on pages 12 to 23 and the previous year's annual financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

NOTES	UNAUDITED SIX MONTHS ENDED		AUDITED YEAR ENDED	
	31 DEC 2008 \$000	31 DEC 2007 \$000	30 JUNE 2008 \$000	
CASH FLOWS FROM OPERATING ACTIVITIES				
	Cash receipts from customers	137,796	115,965	240,305
	Cash paid to suppliers and employees	(123,281)	(93,741)	(197,035)
		14,515	22,224	43,270
	Interest received	1	8	12
	Dividends received	2	-	33
	Other receipts	18	79	117
	GST refunded/(paid)	37	(410)	(472)
	Interest paid	(3,551)	(2,688)	(6,361)
	Income tax paid	(3,263)	(3,195)	(7,011)
	Net cash flow from operating activities	7,759	16,018	29,588
5				
CASH FLOWS FROM INVESTING ACTIVITIES				
	Proceeds from sale of property, plant and equipment	81	41	123
	Acquisition of property, plant and equipment	(8,436)	(4,267)	(9,656)
6				
	Receipt of Australian Government grants	721	-	657
	Step-acquisition of Canterbury Woolscourers Limited	-	(4,850)	(4,850)
	Contingent purchase consideration of minorities	-	(98)	(204)
	Acquisition of subsidiary	-	-	(25,743)
	Net cash flow from investing activities	(7,634)	(9,174)	(39,673)
CASH FLOWS FROM FINANCING ACTIVITIES				
	Shares issued	-	-	5,127
	Borrowings raised	13,921	1,372	14,705
	Dividends paid to equity holders of the Company	(9,392)	(8,842)	(12,867)
	Net cash flow from financing activities	4,529	(7,470)	6,965
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS				
		4,654	(626)	(3,120)
	Cash and cash equivalents at beginning of the period	(148)	462	462
	Cash acquired on acquisition of subsidiary	-	-	2,400
	Effect of exchange rate changes on cash	(118)	69	110
	CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	\$4,388	\$(95)	\$(148)

This statement is to be read in conjunction with the Notes on pages 12 to 23 and the previous year's annual financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 31 December 2008

1. GENERAL

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

The Company is registered under the New Zealand Companies Act 1993. The Company is an issuer for the purposes of the New Zealand Financial Reporting Act 1993 and is, accordingly, a reporting entity that is required to comply with the provisions of both the Companies Act 1993 and the Financial Reporting Act 1993 and with New Zealand Generally Accepted Accounting Practice.

The principal activities of the Company and its subsidiaries ("Group") comprise the Cavalier Bremworth and Norman Ellison broadloom carpet businesses, the Ontera Modular carpet tile business, two commission wool scouring operations and a wool procurement business.

All the subsidiaries in the Group are wholly-owned except for the following:

- Norman Ellison Carpets Limited, Carpet Distributors Limited, Norman Ellison Carpets Proprietary Limited and two dormant companies in the Norman Ellison group of companies – 70% owned
- Ontera Modular Carpets Proprietary Limited and Ontera Modular Carpets Limited – 89.5% owned
- Cavalier Wool Holdings Limited, Cavalier Woolscourers Limited and five dormant companies in the Cavalier Wool Holdings group of companies – 92.5% owned

Because of the need to recognise the put options granted to the minorities in respect of their shareholdings in these subsidiaries as financial liabilities in the balance sheet, the interests of the minorities have been similarly derecognised in the financial statements and their interests accounted for as if the Group owned a 100% of these subsidiaries.

The Company is listed on the New Zealand Exchange (NZX) and is required to comply with the provisions of the NZSX 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 20 February 2009.

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. Because the disclosures normally required by the 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, 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 2007, are unaudited. The comparative information for the year ended 30 June 2008 is audited.

2. ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim financial statements are the same as those adopted in the preparation of the annual financial statements for the year ended 30 June 2008. The interim financial statements should therefore be read in conjunction with those annual financial statements and the accounting policies set out therein.

	SIX MONTHS ENDED		YEAR ENDED
	31 DEC 2008 \$000	31 DEC 2007 \$000	30 JUNE 2008 \$000
3. REVENUE			
Sales of goods	121,850	100,452	224,085
Provision of services	9,737	11,087	25,971
Total revenue	\$131,587	\$111,539	\$250,056

4. EXPENSES			
Profit before income tax includes the following:			
Depreciation	3,820	3,537	6,762
Gain on disposal of property, plant and equipment	(10)	(3)	-
Loss on disposal of property, plant and equipment	11	69	26
Operating lease and rental costs	3,508	1,965	5,010
Research and development expenses relating to the Microbial project	-	480	1,108

	SIX MONTHS ENDED		YEAR ENDED
	31 DEC 2008 \$000	31 DEC 2007 \$000	30 JUNE 2008 \$000
5. CASH FLOW RECONCILIATION			
Profit after tax for the period	7,436	7,971	17,937
Add/(Deduct) non-cash items:			
Equity-settled share-based transactions	100	100	200
Depreciation	3,820	3,537	6,762
Share of (profit)/loss of equity-accounted investee	(6)	6	5
Impairment losses of plant and equipment	-	-	250
Deferred government grants	(72)	-	(241)
Deferred tax asset	164	249	778
Employee benefits	56	58	660
Deferred income	65	-	(27)
Provisions	(29)	-	25
Net loss on sale of property, plant and equipment	1	66	26
Net (gain)/loss on foreign currency balance	45	6	21
Changes in working capital items:			
Trade and other receivables	7,711	4,516	(8,962)
Inventories	(6,021)	2,177	(2,662)
Tax receivable	(95)	448	1,032
Trade creditors and accruals	(4,307)	(3,116)	12,638
Derivative financial instruments	(1,109)	-	1,146
Net cash flow from operating activities	\$7,759	\$16,018	\$29,588

6. ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The acquisition of property, plant and equipment during the period relates, in the main, to capacity enhancement and process improvement projects, with \$5.3 million incurred in New Zealand and \$3.1 million in Australia.

7. ASSETS PLEDGED AS SECURITY

The Group's funding facilities are with the ANZ National Bank Limited and the Australia and New Zealand Banking Group Limited ("the Bank"). These funding facilities are secured by various general security agreements with the Bank and by registered mortgages over land and buildings.

8. EVENTS AFTER BALANCE DATE

Dividends

The Directors declared, on 20 February 2009, a fully imputed second interim dividend of 4 cents per share on the 67,082,444 shares on issue to give a total second interim dividend of \$2,683,298.

	31 DEC 2008 \$000	31 DEC 2007 \$000	30 JUNE 2008 \$000
9. CAPITAL EXPENDITURE COMMITMENTS			
Capital expenditure commitments	\$3,551	\$1,435	\$5,696

10. CONTINGENT LIABILITIES

Bank guarantees in respect of operating leases and other obligations

	\$1,489	\$439	\$1,287

11. RELATED PARTY TRANSACTIONS

Loans and borrowings disclosed as current liabilities in the balance sheet include borrowings from the following related parties:

Chippendale Holdings Limited	1,678	950	705
Rural Aviation (1963) Limited	1,292	63	1,064
Total	\$2,970	\$1,013	\$1,769
Interest rate	5.85%	8.30%	8.70%

These borrowings are unsecured borrowings that are repayable on demand. The interest rates on these borrowings as at the various balance dates are as disclosed and can be compared with the commercial interest rates of 6.73%, 8.35% and 8.75% respectively for borrowings of a similar tenure from the ANZ National Bank Limited. Chippendale Holdings Limited and Rural Aviation (1963) Limited are substantial security holders in the Company.

The Company issued 895,000 share rights pursuant to the Cavalier Corporation Limited 2000 Executive Share Rights Plan to the two executive Directors of the Company and to selected senior executives of the Group during the six months ended 31 December 2008. 890,000 share rights were issued during the six months ended 31 December 2007. The estimated fair value of these share rights were \$0.30 each at date of issue (2007 \$0.30).

12. 31 DECEMBER 2007 COMPARATIVES

The comparatives for the six months ended 31 December 2007 have been amended to reflect the changes that were made in the preparation of the first annual financial statements under NZ IFRS for the year ended 30 June 2008 that were not reflected in the interim financial statements for that six months. These changes include:

- (a) the reclassification of \$1,551,000 of costs from administration expenses to distribution expenses in the Income Statement;
- (b) the reclassification of \$1,612,000 from tax receivable to deferred tax asset in the Balance Sheet;
- (c) the reclassification of \$312,000 of derivative financial instruments to current liabilities that were previously netted off against current assets in the Balance Sheet;
- (d) the recognition of \$799,000 of additional employee benefits in the Balance Sheet;
- (e) the exclusion of \$1,013,000 of call borrowings from cash and cash equivalents used in the Statement of Cash Flows and to treat these call borrowings as loans and borrowings instead;
- (f) the way minorities were dealt with, and the consequent derecognition of minority interests of \$2,084,000 and the recognition of the liability for amounts payable to minorities of \$1,701,000, additional goodwill of \$427,000 and an increase in retained earnings of \$810,000 in the Balance Sheet.

The Group's interests in non wholly-owned subsidiaries are set out below:

	31 DEC 2008 %	31 DEC 2007 %	30 JUNE 2008 %
Ontera Modular Carpets Pty Limited and subsidiary	89.5	89.5	89.5
Cavalier Wool Holdings Limited and subsidiaries	92.5	92.5	92.5
Norman Ellison Carpets Limited and subsidiaries	70.0	70.0	-

Pursuant to the shareholders' agreements that were reached with the minorities at the time of the relevant business combinations involving these non wholly-owned subsidiaries, the Group granted, in favour of these minorities, put options that give them the right to sell their respective shareholdings to the Group. The prices at which these shareholdings can be sold are, generally, based on capitalising the latest earnings of the relevant subsidiary at a pre-agreed earnings multiple and then adjusting this downwards for interest-bearing debt in the subsidiary.

In return for granting these put options, the Group has been granted call options which give the Group the corresponding right to buy the minorities out of these subsidiaries.

Pursuant to NZ IAS 32 *Financial Instruments: Disclosure and Presentation*, the Group recognises the put options, which impose upon the Group the unavoidable obligations to purchase the remaining shares in these subsidiaries, as financial liabilities. As a consequence, and because these put options were granted as part of various business combinations, the Group has accounted for these put options as follows:

**Norman Ellison Carpets Limited and subsidiaries
("the Norman Ellison carpet operation")**

The Group has treated these put options as if they were exercised at acquisition date and as if the Group's eventual obligation to purchase the additional shares had already occurred (in essence, an "anticipated acquisition"). As a result, no minority interest has been recognised in the financial statements in respect of the minorities' 30% legal interest. Instead, the Group has recognised a financial term liability in respect of its unavoidable obligation to purchase the remaining 30% in the Norman Ellison carpet operation and has treated the excess of the financial term liability over the amount paid by the minorities for their 30% as additional goodwill arising from the acquisition.

The financial liability that was booked represents the present value of the best estimate of the amount payable to the minorities after having regard to, amongst other things, the provision within the shareholders' agreement for the calculation of the purchase price, the earnings projections of the Norman Ellison carpet operation and the appropriate discount rate for arriving at the present value of that future obligation.

**Ontera Modular Carpets Limited and subsidiaries and
Cavalier Wool Holdings Limited and subsidiaries**

The Group applied the restatement exemption in NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* in respect of business combinations before the transition date of 1 July 2006. However, because the Group's accounting of these put options is based on the assumption that the put options had already been exercised and the minority interests had already been acquired, the Group recognised, on transition date, a financial liability as a contingent purchase consideration and derecognised the relevant minority interest at the same time.

The difference arising from the recognition of the contingent purchase consideration and derecognition of the minority interest was adjusted through goodwill.

Impact of the accounting treatment

The impact of accounting for the put options granted to the minorities as "anticipated acquisitions" implies consolidating these subsidiaries using percentages of interests that include the "anticipated interests".

This means that the share of the profits or losses relating to these "anticipated interests" are presented as relating to the shareholders of the Company rather than the legal minority interests.

Future variability in financial liabilities created

Future variability in the financial liabilities created (effectively the purchase consideration) will be dealt with as contingent purchase considerations under the requirements of NZ IFRS 3 *Business Combinations* and be treated as adjustments to the cost of the relevant business combinations and therefore goodwill.

Future payments of dividends to minorities

Future payments of dividends to the minorities which will have a direct impact on the purchase considerations otherwise payable to the minorities will be dealt with as progress payments towards the ultimate purchase considerations.

Presentation of financial liabilities created

The financial liabilities recognised in respect of minorities are disclosed as other payables in the balance sheet.

13. NZ IFRS 5 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

The Company announced on 15 December 2008 that it had agreed with the David Ferrier interests ("Ferrier") to bring about the much-needed rationalisation of the wool scouring industry in NZ and to address the mismatch between scouring capacity and wool available for scouring as a result of the substantial reduction in sheep numbers brought about by the conversions to dairy and dairy support and the droughts of recent years.

The transaction being proposed follows upon a conditional agreement that Ferrier has made to acquire the scouring assets of Godfrey Hirst NZ Ltd ("GH") and a contract with GH to scour their entire wool requirement for a minimum period of six years. In essence, the proposal is that the 92.5%-owned Cavalier subsidiary, Cavalier Wool Holdings Ltd ("CWH"), will acquire from Ferrier:

- selected plant, equipment and stock from the GH plants for \$9.7 million
- land at the GH Clive plant for \$3.4 million
- the contract to scour GH's wool, the consideration for which is the issue of shares in CWH that will bring the Ferrier shareholding in CWH up from 7.5% to 50% (after recognising the resulting rationalisation of the NZ scouring industry and Ferrier's costs in achieving that).

The impact of the issue of shares in CWH will bring about the dilution of the Group's interest in, and the Group ceasing control of, CWH to the extent where the Group would no longer consolidate CWH and would, in essence, result in the disposal of assets and liabilities related to CWH.

The Directors note that pursuant to NZ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the non-current assets relating to CWH fall within the definition of a disposal group and they should therefore be classified as held for sale and their prima facie measurement basis should be changed if it is highly probable that the sale will proceed. The Directors also note that the transaction is still subject to both regulatory and shareholder approvals and that it is therefore not possible to conclude as at balance date that the transaction is highly probable to proceed.

On this basis, the Directors consider that the recognition criteria of NZ IFRS 5 have not been met and that it is therefore not appropriate to present the non-current assets of CWH as held for sale.

14. SEGMENT REPORTING

The Group operates in two industry segments – carpet and wool.

The carpet operation is involved with the manufacturing and sales of the Bremworth, Cavalier Bremworth, Knightsbridge, Kimberley, Norman Ellison, Tramore and Ontera brands of carpet.

The wool operation is involved with the procurement and processing of raw wool.

The Group operates in two principal geographical areas – New Zealand and Australia.

The New Zealand geographical segment comprises the activities of the Cavalier Bremworth and Norman Ellison carpet operations, which cover the manufacturing and sales of the Bremworth, Cavalier Bremworth, Knightsbridge, Kimberley, Norman Ellison and Tramore brands of carpet, and the wool operations.

The Australian geographical segment comprises the activities of Sydney-based Ontera Modular Carpets. The Australian activities of the Cavalier Bremworth and Norman Ellison carpet operations do not extend beyond facilitating export sales from New Zealand and are therefore classified as activities of the New Zealand geographical segment.

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.

14. SEGMENT REPORTING (continued) – INDUSTRY

	CARPET		
	SIX MONTHS ENDED		YEAR ENDED
	31 DEC 2008 \$'000	31 DEC 2007 \$'000	30 JUN 2008 \$'000
Segment revenue			
Revenue derived outside the Group	114,264	89,627	199,228
Inter-segment revenue	-	-	-
Total external revenue			
Segment results			
Profit before unallocated costs and income tax	14,142	15,020	30,484
Equity-accounted investee earnings	-	-	-
Corporate costs			
Research and development expenses			
Net finance costs			
Income tax expense			
Profit after income tax			
Segment assets			
Segment assets	185,749	133,572	186,207
Equity-accounted investee	-	-	-
Unallocated assets			
Total assets			
Segment liabilities	130,682	85,532	123,222
Segment cash flows			
From operating activities	6,796	14,149	23,344
From investing activities	(6,636)	(3,681)	(33,616)
From financing activities	4,448	(10,860)	7,294
Other segment information			
Capital expenditure	7,438	3,616	8,428
Depreciation	2,851	2,400	4,904
Employee numbers			
Operations	979	732	1,018
Unallocated			
Total			

WOOL			CONSOLIDATION ADJUSTMENTS			CONSOLIDATED		
SIX MONTHS ENDED		YEAR ENDED	SIX MONTHS ENDED		YEAR ENDED	SIX MONTHS ENDED		YEAR ENDED
31 DEC 2008	31 DEC 2007	30 JUN 2008	31 DEC 2008	31 DEC 2007	30 JUN 2008	31 DEC 2008	31 DEC 2007	30 JUN 2008
\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
17,323	21,912	50,828	-	-	-	131,587	111,539	250,056
3,712	2,149	6,287	(3,712)	(2,149)	(6,287)	-	-	-
						\$131,587	\$111,539	\$250,516
884	1,118	5,588	-	-	-	15,026	16,138	36,072
6	(6)	(5)	-	-	-	6	(6)	(5)
						(900)	(989)	(1,766)
						-	(480)	(1,108)
						(3,381)	(2,853)	(6,493)
						(3,315)	(3,839)	(8,763)
						\$7,436	\$7,971	\$17,937
41,330	37,603	35,749	-	-	-	227,079	171,175	221,956
175	168	169	-	-	-	175	168	169
						20	283	20
						\$227,274	\$171,626	\$222,145
14,053	13,582	13,819	-	-	-	\$144,735	\$99,114	137,041
963	1,869	6,244	-	-	-	\$7,759	\$16,018	\$29,588
(998)	(5,493)	(6,057)	-	-	-	\$(7,634)	\$(9,174)	\$(39,673)
81	3,390	(329)	-	-	-	\$4,529	\$(7,470)	\$6,965
998	651	1,228	-	-	-	\$8,436	\$4,267	\$9,656
969	1,137	1,858	-	-	-	\$3,820	\$3,537	\$6,762
119	116	120	-	-	-	1,098	848	1,138
						4	4	4
						1,102	852	1,142

14. SEGMENT REPORTING (continued) - GEOGRAPHICAL

	NEW ZEALAND		
	SIX MONTHS ENDED		YEAR ENDED
	31 DEC 2008 \$000	31 DEC 2007 \$000	30 JUN 2008 \$000
Segment revenue			
Revenue derived outside the Group	102,638	85,246	196,937
Inter-segment revenue	933	860	2,047
Total revenue			
Segment results			
Profit before unallocated costs and income tax	10,868	11,888	27,017
Equity-accounted investee earnings	6	(6)	(5)
Corporate costs			
Research and development expenses			
Net finance costs			
Income tax expense			
Profit after income tax			
Segment assets			
Segment assets	196,891	149,190	192,927
Equity-accounted investee	175	168	169
Unallocated assets			
Total assets			
Segment liabilities	133,438	89,808	124,738
Segment cash flows			
From operating activities	4,550	13,921	23,102
From investing activities	(5,284)	(7,553)	(36,579)
From financing activities	4,878	(6,829)	10,863
Other segment information			
Capital expenditure	5,365	2,744	6,109
Depreciation	3,276	3,143	5,926
Employee numbers			
Operations	997	761	1,040
Unallocated			
Total			

AUSTRALIA			CONSOLIDATION ADJUSTMENTS			CONSOLIDATED		
SIX MONTHS ENDED		YEAR ENDED	SIX MONTHS ENDED		YEAR ENDED	SIX MONTHS ENDED		YEAR ENDED
31 DEC 2008	31 DEC 2007	30 JUN 2008	31 DEC 2008	31 DEC 2007	30 JUN 2008	31 DEC 2008	31 DEC 2007	30 JUN 2008
\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
28,949	26,293	53,119	-	-	-	131,587	111,539	250,056
-	-	-	(933)	(860)	(2,047)	-	-	-
						\$131,587	\$111,539	\$250,056
4,158	4,250	9,055	-	-	-	15,026	16,138	36,072
-	-	-	-	-	-	6	(6)	(5)
						(900)	(989)	(1,766)
						-	(480)	(1,108)
						(3,381)	(2,853)	(6,493)
						(3,315)	(3,839)	(8,763)
						\$7,436	\$7,971	\$17,937
30,188	21,985	29,029	-	-	-	227,079	171,175	221,956
-	-	-	-	-	-	175	168	169
						20	283	20
						\$227,274	\$171,626	\$222,145
11,297	9,306	12,303	-	-	-	\$144,735	\$99,114	137,041
3,209	2,097	6,486	-	-	-	\$7,759	\$16,018	\$29,588
(2,350)	(1,621)	(3,094)	-	-	-	\$(7,634)	\$(9,174)	\$(39,673)
(349)	(641)	(3,898)	-	-	-	\$4,529	\$(7,470)	\$6,965
3,071	1,523	3,547	-	-	-	\$8,436	\$4,267	\$9,656
544	394	836	-	-	-	\$3,820	\$3,537	\$6,762
101	87	98	-	-	-	1,098	848	1,138
						4	4	4
						1,102	852	1,142

DIRECTORY

DIRECTORS:

G C W Biel B.E. (Mech.) <i>Non-executive, Non-independent</i>	Deputy Chairman of the Board Member of Audit Committee Member of Remuneration Committee
W K Chung B.Com., CA, CMA	Managing Director
R G Ebbett B.Com., ACA, FInstD <i>Non-executive, Independent</i>	Chairman of Audit Committee Member of Remuneration Committee
G S Hawkins B.Sc., B.Com., ACA, FInstD <i>Non-executive, Independent</i>	Member of Audit Committee Member of Remuneration Committee
A M James B.Tech. (Hons.), Dip.Bus.Admin. <i>Non-executive, Independent</i>	Chairman of the Board Member of Audit Committee Chairman of Remuneration Committee
V T S Tan CA, ACIS	Finance Director
K L Thorpe M.A. <i>Non-executive, Independent</i>	Member of Audit Committee Member of Remuneration Committee
A C Timpson FInstD <i>Non-executive, Non-independent</i>	Member of Remuneration Committee

COMPANY SECRETARY:

V T S Tan CA, ACIS

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AUDITORS:

KPMG

LEGAL ADVISORS:

Hornabrook Macdonald Minter Ellison Rudd Watts Russell McVeagh

BANKERS:

ANZ National Bank Limited Australia and New Zealand Banking Group Limited

WEB SITES:

Corporate – www.cavcorp.co.nz
Carpet Operations – www.cavbrem.co.nz, www.cavbrem.com.au, www.knightsbridgecarpets.co.nz,
www.kimberleycarpets.com.au, www.ontera.com.au, www.normanellison.co.nz
Share Registry – www.computershare.co.nz



THE BREMWORTH
COLLECTION



THE Georgia
COLLECTION