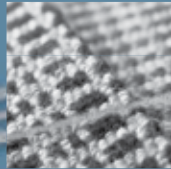
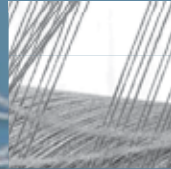


*the* BEST YARN  
*has many* STRANDS



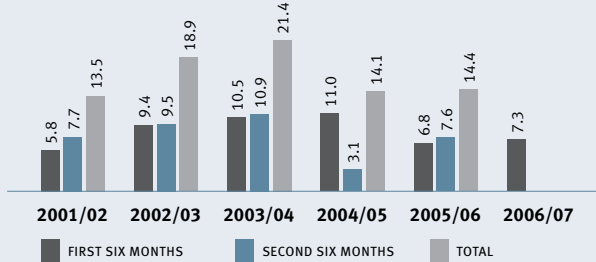
# FINANCIAL SUMMARY

	UNAUDITED SIX MONTHS ENDED		AUDITED 12 MONTHS ENDED
	31 DEC 2006 \$000	31 DEC 2005 \$000	30 JUN 2006 \$000
<b>OPERATING REVENUE</b>	<b>\$102,276</b>	\$96,295	\$201,747
EBITDA	<b>16,349</b>	15,437	32,483
Depreciation and amortisation	<b>(2,982)</b>	(2,803)	(6,034)
EBIT	<b>13,367</b>	12,634	26,449
Net interest expense	<b>(2,191)</b>	(2,119)	(4,498)
Operating surplus before tax	<b>11,176</b>	10,515	21,951
Income tax expense	<b>(3,921)</b>	(3,677)	(7,561)
<b>OPERATING SURPLUS AFTER TAX</b>	<b>\$7,255</b>	\$6,838	\$14,390
<b>OPERATING SURPLUS AFTER TAX ATTRIBUTABLE TO:</b>			
Shareholders of the Company	<b>7,068</b>	6,715	14,005
Minority shareholders of subsidiaries	<b>187</b>	123	385
	<b>\$7,255</b>	\$6,838	\$14,390
<b>CASH FLOWS FROM OPERATIONS</b>	<b>\$13,152</b>	\$6,963	\$24,741
<b>EARNINGS PER SHARE (ANNUALISED)</b>	<b>21.6 cents</b>	20.5 cents	21.4 cents
<b>RETURN ON AVERAGE SHAREHOLDERS' EQUITY (ANNUALISED)</b>	<b>22.9 %</b>	22.2%	22.4%
<b>DIVIDENDS PAID (CENTS PER SHARE)</b>			
Previous year's final	<b>10.0 cents</b>	14.5 cents	14.5 cents
Current year's first interim	<b>3.0 cents</b>	3.0 cents	3.0 cents
Current year's second interim			5.0 cents
<b>TOTAL</b>			22.5 cents
		AS AT	AS AT
	<b>31 DEC 2006</b>	31 DEC 2005	30 JUN 2006
<b>NET TANGIBLE ASSET BACKING PER SHARE</b>	<b>\$0.90</b>	\$0.85	\$0.93
<b>PROPRIETORSHIP RATIO</b>	<b>42.4%</b>	38.8%	42.1%
<b>NET INTEREST-BEARING DEBT TO EQUITY RATIO</b>	<b>49:51</b>	55:45	49:51

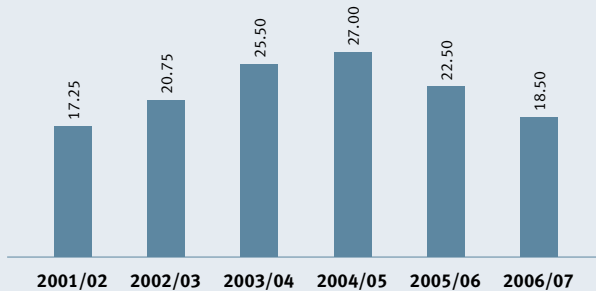
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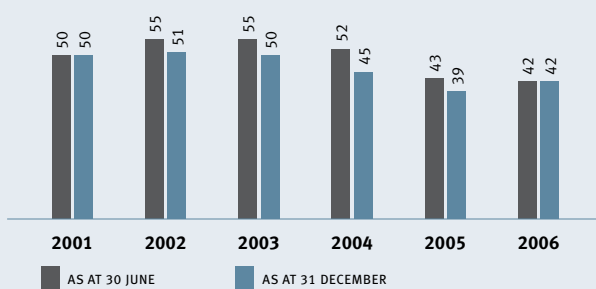
OPERATING SURPLUS AFTER TAX (\$ MILLIONS)<sup>1</sup>



DIVIDENDS PAID (CENTS PER SHARE)<sup>2</sup>



PROPRIETORSHIP RATIO (%)<sup>3</sup>



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

<sup>2</sup> 2006/07 include second interim dividend declared and paid after 31 December 2006.

<sup>3</sup> 2005 ratios reflect the write-down relating to the Microbial development project.

# DIRECTORS' REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2006



A M JAMES  
Chairman



W K CHUNG  
Managing Director

## FINANCIAL PERFORMANCE

The Directors of Cavalier Corporation announce an unaudited operating surplus after tax and minority interests of \$7.1 million for the six months to 31 December 2006. This represents a 5.3% increase on last year.

This earnings increase was signalled at our Annual Meeting in November last year and reflects the generally better trading conditions encountered by our carpet and wool operations.

Operating revenue at \$102.3 million is 6% up on last year, with the increase spread evenly across all the operations in the Group.

EBITDA (Earnings before interest, tax, depreciation and amortisation) for the Group is \$16.3 million, up 5.9% on last year. Interest cost is up by 3%, reflecting the increase in interest rates.

## FINANCIAL POSITION

Shareholders' equity decreased by \$2.1 million during the period because the Company pays approximately 70% of its annual dividends in the first half of the financial year.

Over that same period, total assets of the Group decreased by \$5.9 million to \$147.1 million and term and current liabilities decreased by \$3.8 million to \$84.7 million to leave the Group's proprietorship ratio unchanged on the 42% at June 2006.

Net interest-bearing debt : equity at balance date stood at 49 : 51 which is also unchanged on the position at June 2006.

## SEGMENT REVIEWS

### Carpet Operations

Operating revenue for carpets was \$83 million, up 6.5% on last year, and operating surplus before interest and tax of \$14.8 million was up 2.9% on last year.

After the difficult trading period experienced last year, we started to see some growth in our carpet sales. Of note was the higher volume of retail carpet sales in Australia which mirrored the feedback we were getting from the retail trade about the increase in demand for carpet at the quality and better end of the market. Notable too was the strong sales of our carpet tile operation which enjoyed strong market conditions on both sides of the Tasman.

In New Zealand, our carpet sales were in line with last year which is a good result considering the impact a slower housing sector has on carpet demand.

However, the markets remained as price-competitive as ever, and we experienced pressures on margins in almost all market segments.

## Wool Operations

Revenue for the wool operations was \$19.3 million, up 5.1% on last year. The operating result before interest and tax was \$0.2 million, a turnaround from a loss of \$0.3 million last year.

The wool acquisition operation performed well despite the continuing difficult trading conditions brought about by the persistently high NZD. This in turn hindered the ability of our customers, the wool exporters, to sell wool and to trade the margins. As mentioned previously, our business here is not to take positions in wool or in currency, but to act as a service provider to the wool exporting community by sourcing wool from farmers at the farm gate to meet orders.

The other part of our wool operation is commission wool scouring. Our volumes here have improved, but earnings have been eroded by recent increases in freight and energy costs and by the high NZD on wool grease revenues.

## MICROBIAL TECHNOLOGIES

Research in this area continues and for the six months to December, \$480,000 was incurred compared with \$446,000 last year.

Results from the earlier trials proved to be inconclusive, and your Directors have, as a result, approved a further set of trials which should be completed within the next 20 weeks.

## EARNINGS OUTLOOK

We expect the market conditions experienced in the first half to continue into the second half of this financial year.

In our carpet operations, we expect the improved performances in retail and contract sales in Australia to continue and the operating environment to remain stable in New Zealand. And in our wool operations, we expect the same difficult trading conditions as in the first half, but we should at least hold onto the improved performances of the first half.

Overall, our outlook for the full year to 30 June 2007 is for a tax paid profit (before Microbial costs) of around \$15.3 million, giving a 5% increase on last year's \$14.6 million, which is unchanged on that announced at our last Annual Meeting in November 2006.

If there are any material changes to our year-end outlook, we will let shareholders know.

## 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 2007 of 5.5 cents per share, which is 0.5 cent/10% up on last year's second interim dividend of 5 cents per share.

This second interim dividend, together with the first interim of 3 cents per share paid in December 2006, gives a total of 8.5 cents thus far – 6% up on last year's total interim dividends and in line with the 5% increase in operating surplus after tax and minority interest.

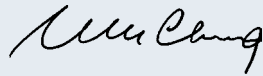
The second interim dividend will be paid on Friday, 16th March 2007. The share register will close at 5 p.m. on Friday, 9th March 2007 for the purpose of determining entitlement to the dividend and will reopen on Monday, 12th March 2007.

Non-resident shareholders will also be receiving a supplementary dividend of 0.9706 cent per share together with their second interim dividend.

For and on behalf of the Board of Directors:



**A M James**  
Chairman  
16 February 2007



**W K Chung**  
Managing Director

# AUDITORS' REVIEW REPORT



## **TO THE SHAREHOLDERS OF CAVALIER CORPORATION LIMITED**

We have completed a review of the attached financial statements on pages 5 to 16 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 and financial position of Cavalier Corporation Limited and subsidiaries ("the Group") as at 31 December 2006.

## **DIRECTORS' RESPONSIBILITIES**

The Directors of Cavalier Corporation Limited are responsible for the preparation of financial statements which give a true and fair view of the financial position of the Group as at 31 December 2006 and the results of its operations and cash flows for the six month period ended on that date.

## **REVIEWERS' RESPONSIBILITIES**

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

## **BASIS OF OPINION**

A review is limited primarily to enquiries of company 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.

## **REVIEW OPINION**

Based on our review, nothing has come to our attention that causes us to believe that the attached financial statements do not give a true and fair view of the financial position of the Group as at 31 December 2006 and the results of its operations and cash flows for the six month period ended on that date.

Our review was completed on 16 February 2007 and our opinion is expressed as at that date.

A handwritten signature in black ink that reads 'KPMG.' The signature is stylized and appears to be written in a cursive or semi-cursive script.

Auckland

**CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE**  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

	NOTES	UNAUDITED SIX MONTHS ENDED		AUDITED 12 MONTHS ENDED
		31 DEC 2006 \$000	31 DEC 2005 \$000	30 JUN 2006 \$000
<b>OPERATING REVENUE</b>	2	<b>\$102,276</b>	\$96,295	\$201,747
<b>OPERATING SURPLUS BEFORE INTEREST AND INCOME TAX</b>	3	<b>13,367</b>	12,634	26,449
Net Interest Expense		<b>(2,191)</b>	(2,119)	(4,498)
<b>OPERATING SURPLUS BEFORE INCOME TAX</b>		<b>11,176</b>	10,515	21,951
Income Tax Expense		<b>(3,921)</b>	(3,677)	(7,561)
<b>OPERATING SURPLUS AFTER INCOME TAX</b>		<b>\$7,255</b>	\$6,838	\$14,390
<b>OPERATING SURPLUS AFTER INCOME TAX:</b>				
Attributable to shareholders of the Company		<b>7,068</b>	6,715	14,005
Attributable to minority shareholders of subsidiaries		<b>187</b>	123	385
		<b>\$7,255</b>	\$6,838	\$14,390

This statement is to be read in conjunction with the Notes on pages 9 to 16 and the previous year's financial statements.

## CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

	UNAUDITED SIX MONTHS ENDED		AUDITED 12 MONTHS ENDED
	31 DEC 2006 \$000	31 DEC 2005 \$000	30 JUN 2006 \$000
<b>RECOGNISED REVENUES AND EXPENSES FOR THE PERIOD:</b>			
Operating surplus after income tax –			
of shareholders of the Company	<b>7,068</b>	6,715	14,005
of minority shareholders of subsidiaries	<b>187</b>	123	385
Foreign currency translation reserve	<b>(786)</b>	(103)	841
	<b>6,469</b>	6,735	15,231
<b>CONTRIBUTIONS FROM OWNERS DURING THE PERIOD:</b>			
Share rights issued	<b>67</b>	84	153
<b>DISTRIBUTIONS TO OWNERS DURING THE PERIOD:</b>			
Minority shareholders of subsidiary –			
dividends paid by subsidiary	<b>(98)</b>	(53)	(67)
Shareholders of the Company –			
previous year's final dividend	<b>(6,550)</b>	(9,497)	(9,497)
current year's 1st interim dividend	<b>(1,965)</b>	(1,965)	(1,965)
current year's 2nd interim dividend	-	-	(3,275)
	<b>(8,613)</b>	(11,515)	(14,804)
<b>MOVEMENTS IN EQUITY FOR THE PERIOD</b>	<b>\$(2,077)</b>	\$(4,696)	\$580
<b>EQUITY AT BEGINNING OF THE PERIOD:</b>			
Attributable to shareholders of the Company	<b>63,069</b>	62,807	62,807
Attributable to minority shareholders of subsidiaries	<b>1,415</b>	1,097	1,097
	<b>\$64,484</b>	\$63,904	\$63,904
<b>EQUITY AT END OF THE PERIOD:</b>			
Attributable to shareholders of the Company	<b>60,903</b>	58,041	63,069
Attributable to minority shareholders of subsidiaries	<b>1,504</b>	1,167	1,415
	<b>\$62,407</b>	\$59,208	\$64,484

This statement is to be read in conjunction with the Notes on pages 9 to 16 and the previous year's financial statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2006

	NOTES	UNAUDITED AS AT		AUDITED AS AT
		31 DEC 2006 \$000	31 DEC 2005 \$000	30 JUN 2006 \$000
<b>SHAREHOLDERS' EQUITY</b>				
Attributable to shareholders of the Company		<b>60,903</b>	58,041	63,069
Attributable to minority shareholders of subsidiaries		<b>1,504</b>	1,167	1,415
		<b>62,407</b>	59,208	64,484
<b>TERM LIABILITIES (SECURED)</b>		<b>56,822</b>	71,085	59,976
<b>CURRENT LIABILITIES</b>				
Bank overdraft (secured)		<b>1,105</b>	1,022	168
Short-term borrowings		<b>5,585</b>	3,191	4,934
Employee entitlements		<b>5,609</b>	5,130	6,119
Trade creditors and accruals		<b>15,605</b>	12,927	17,342
		<b>27,904</b>	22,270	28,563
<b>SHAREHOLDERS' EQUITY AND TOTAL LIABILITIES</b>		<b>\$147,133</b>	\$152,563	\$153,023
<b>NON-CURRENT ASSETS</b>				
Fixed assets		<b>60,928</b>	59,787	60,404
Investment in associated company	5	<b>3,496</b>	3,879	3,736
Goodwill		<b>1,736</b>	2,140	1,936
Deferred tax asset		<b>2,142</b>	3,319	2,232
		<b>68,302</b>	69,125	68,308
<b>CURRENT ASSETS</b>				
Cash at bank		<b>2,647</b>	3,251	3,160
Trade debtors		<b>24,541</b>	24,455	28,104
Other debtors and prepayments		<b>2,058</b>	3,120	2,888
Short-term advance to associated company	6	<b>4,405</b>	3,369	4,273
Stocks		<b>44,083</b>	47,293	44,265
Income tax refund		<b>1,097</b>	1,950	2,025
		<b>78,831</b>	83,438	84,715
<b>TOTAL ASSETS</b>		<b>\$147,133</b>	\$152,563	\$153,023

This statement is to be read in conjunction with the Notes on pages 9 to 16 and the previous year's financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

	NOTES	UNAUDITED SIX MONTHS ENDED 31 DEC 2006 \$000	31 DEC 2005 \$000	AUDITED 12 MONTHS ENDED 30 JUN 2006 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<b>CASH WAS PROVIDED FROM:</b>				
Receipts from sales of goods and services		<b>105,357</b>	102,006	203,982
Other receipts		<b>112</b>	48	124
Interest received		<b>18</b>	30	53
GST refunded		<b>470</b>	-	280
<b>CASH WAS APPLIED TO:</b>				
Payments to suppliers and employees and rebates and discounts to customers		<b>(87,787)</b>	(88,552)	(168,399)
Interest paid		<b>(2,183)</b>	(1,910)	(4,267)
Income tax (paid)/refunded		<b>(2,835)</b>	(4,185)	(7,032)
GST paid		-	(474)	-
<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>	4	<b>13,152</b>	6,963	24,741
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
<b>CASH WAS PROVIDED FROM:</b>				
Fixed assets sold		<b>50</b>	42	131
<b>CASH WAS APPLIED TO:</b>				
Fixed assets purchased		<b>(3,976)</b>	(4,102)	(6,891)
Borrowing costs capitalised to fixed assets		-	(150)	(150)
<b>NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES</b>		<b>(3,926)</b>	(4,210)	(6,910)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
<b>CASH WAS PROVIDED FROM:</b>				
Term loans raised		-	11,400	-
<b>CASH WAS APPLIED TO:</b>				
Term loans settled		<b>(2,541)</b>	-	(679)
Dividends paid –				
to shareholders of the Company		<b>(8,515)</b>	(11,462)	(14,737)
to minority shareholders of subsidiary		<b>(98)</b>	(53)	(67)
Short-term advance to associated company		<b>(132)</b>	(2,699)	(3,603)
<b>NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES</b>		<b>(11,286)</b>	(2,814)	(19,086)
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>		<b>(2,060)</b>	(61)	(1,255)
Cash at beginning of the period		<b>(1,942)</b>	(845)	(845)
Effect of exchange rate changes on cash		<b>(41)</b>	(56)	158
<b>CASH AT END OF THE PERIOD</b>	4	<b>\$(4,043)</b>	\$(962)	\$(1,942)

This statement is to be read in conjunction with the Notes on pages 9 to 16 and the previous year's financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

**1 ACCOUNTING POLICIES**

There have been no changes in accounting policies.

The interim financial statements have been prepared having regard to the requirements of the NZX and those of FRS-24 "Interim Financial Statements". As the disclosure required in interim financial statements is less extensive than in annual financial statements, the interim financial statements should be read in conjunction with the previous annual financial statements.

	UNAUDITED SIX MONTHS ENDED	31 DEC 2005 \$000	AUDITED 12 MONTHS ENDED
	31 DEC 2006 \$000		30 JUN 2006 \$000
<b>2 OPERATING REVENUE</b>			
Operating revenue as per the Statement of Financial Performance comprises:			
Sales of goods and services	<b>102,146</b>	96,217	201,570
Rentals received	<b>112</b>	48	124
Interest received	<b>18</b>	30	53
	<b>\$102,276</b>	\$96,295	\$201,747
<b>3 OPERATING SURPLUS BEFORE INTEREST AND INCOME TAX</b>			
The operating surplus before interest and income tax as per the Statement of Financial Performance is stated:			
<b>AFTER CHARGING –</b>			
Amortisation of goodwill	<b>278</b>	309	590
Depreciation	<b>2,704</b>	2,494	5,444
Loss on sale of fixed assets	<b>64</b>	3	75
Operating lease and rental costs	<b>1,458</b>	1,392	2,794
Research costs relating to the Microbial development project	<b>480</b>	446	970
Share of associated company tax–paid deficit	<b>162</b>	274	340
<b>AFTER CREDITING –</b>			
Gain on sale of fixed assets	<b>1</b>	-	52

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	UNAUDITED SIX MONTHS ENDED		AUDITED 12 MONTHS ENDED
	31 DEC 2006 \$000	31 DEC 2005 \$000	30 JUN 2006 \$000
<b>4 CASH FLOWS</b>			
Cash comprises cash at bank, bank overdraft and short-term borrowings as follows:			
Cash at bank	<b>2,647</b>	3,251	3,160
Bank overdraft	<b>(1,105)</b>	(1,022)	(168)
Short-term borrowings	<b>(5,585)</b>	(3,191)	(4,934)
Cash at end of the period	<b>\$(4,043)</b>	\$(962)	\$(1,942)

Investing activities comprise the purchase and sale of non-current assets used in the operations of the Group. All investing activities during the period were for cash.

Financing activities comprise the change in the equity and debt capital structure and the cost of servicing that equity capital. All financing activities during the period were for cash.

**THE OPERATING SURPLUS AFTER INCOME TAX CAN BE RECONCILED WITH THE NET CASH INFLOW FROM OPERATING ACTIVITIES AS FOLLOWS:**

Operating surplus after income tax as per the Statement of Financial Performance	<b>7,255</b>	6,838	14,390
Adjust for non-cash items:			
Amortisation of goodwill	<b>278</b>	309	590
Depreciation	<b>2,704</b>	2,494	5,444
Fair value of share rights expensed	<b>67</b>	84	153
Movements in deferred tax	<b>39</b>	44	1,191
Net (gain)/loss on foreign currency balance	<b>(28)</b>	56	(123)
Share of associated company tax–paid (surplus)/deficit	<b>162</b>	274	340
	<b>3,222</b>	3,261	7,595
Adjust for movements in working capital items:			
Trade debtors	<b>3,054</b>	6,068	3,075
Other debtors and prepayments	<b>735</b>	(1,192)	(889)
Stocks	<b>(375)</b>	(3,685)	232
Income tax refund/Provision for tax	<b>944</b>	(552)	(662)
Trade creditors, accruals and employee entitlements	<b>(1,746)</b>	(3,778)	977
	<b>2,612</b>	(3,139)	2,733
Adjust for items classified as investing activities:			
Net (gain)/loss on sale of fixed assets	<b>63</b>	3	23
Net cash inflow from operating activities	<b>\$13,152</b>	\$6,963	\$24,741

	UNAUDITED SIX MONTHS ENDED		AUDITED 12 MONTHS ENDED
	31 DEC 2006 \$000	31 DEC 2005 \$000	30 JUN 2006 \$000
<b>5 INVESTMENT IN ASSOCIATED COMPANY</b>			
<b>CARRYING AMOUNT OF ASSOCIATE (INCLUDING GOODWILL)</b>			
Carrying amount at beginning of the period	3,736	4,231	4,231
Amount paid on acquisition of shares in associate	-	-	-
Share of associated company tax-paid surplus/(deficit)	(162)	(274)	(340)
Amortisation of goodwill	(78)	(78)	(155)
Carrying amount at end of the period	<b>\$3,496</b>	<b>\$3,879</b>	<b>\$3,736</b>
<b>GOODWILL RELATING TO INVESTMENT IN ASSOCIATE</b>			
Goodwill on acquisition of shares in associate	1,550	1,550	1,550
Accumulated amortisation	(362)	(207)	(284)
Net carrying amount of goodwill	<b>\$1,188</b>	<b>\$1,343</b>	<b>\$1,266</b>
<b>SHARE OF ASSOCIATED COMPANY TAX-PAID SURPLUS/(DEFICIT)</b>			
Share of operating surplus/(deficit) of associate	(233)	(403)	(487)
Share of provision for tax of associate	71	129	147
Net recognised revenues and expenses	<b>\$(162)</b>	<b>\$(274)</b>	<b>\$(340)</b>

50% owned-Canterbury Woollscourers Limited is the only associated company of the Group. At balance date, Canterbury Woollscourers Limited had commitments for capital expenditure of \$559,000 (31 December 2005 \$79,000, 30 June 2006 Nil).

#### 6 SHORT-TERM ADVANCE TO ASSOCIATED COMPANY

Commercial rates of interest apply in respect of this advance.

#### 7 SHAREHOLDERS' EQUITY

There is only one class of share in the Company. The number of shares on issue at 31 December 2006 was 65,495,595 (31 December 2005 65,495,595, 30 June 2006 65,495,595) fully paid up. All shares within this class rank pari passu in all respects.

#### 8 CAPITAL COMMITMENTS

The Group had commitments for capital expenditure at 31 December 2006 of \$1,309,000 (31 December 2005 \$765,000, 30 June 2006 \$2,203,000).

#### 9 EVENTS AFTER BALANCE DATE

##### DIVIDENDS

The Directors declared, on 16 February 2007, a fully imputed second interim dividend of 5.5 cents per share on the 65,495,595 shares on issue to give a total second interim dividend of \$3,602,258.

#### 10 CONTINGENT LIABILITIES

Bank guarantees in respect of operating leases at 31 December 2006 amounted to \$269,000 (31 December 2005 \$257,000, 30 June 2006 \$292,000).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**11 FINANCIAL REPORTING FOR SEGMENTS**

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, Tramore, and Ontera brands of carpet. The wool operation is involved with the procurement and processing of raw wool.

For financial reporting purposes, statement of standard accounting practice SSAP-23 treats the Group as having its operations in two geographical segments – New Zealand and Australia. The New Zealand geographical segment comprises the activities of the Cavalier Bremworth carpet operation, which covers the manufacturing and sales of the Bremworth, Cavalier Bremworth, Knightsbridge, Kimberley, 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 carpet operation do not extend beyond facilitating export sales from New Zealand and are therefore classified as activities of the New Zealand geographical segment in accordance with SSAP-23.

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.

The industry and geographical segmental information is set out below:

**INDUSTRY SEGMENTAL INFORMATION****(12 months ended 30 June 2006 – audited)**

	CARPET	WOOL	CONSOLIDATION ADJUSTMENTS	CONSOLIDATED
	2006 \$000	2006 \$000	2006 \$000	2006 \$000
<b>SEGMENT REVENUE</b>				
Revenue derived outside the Group	157,795	43,899	-	201,694
Inter-segment revenue	-	5,443	(5,443)	-
Interest received	53	-	-	53
Total revenue				<b>\$201,747</b>
<b>SEGMENT RESULTS</b>				
Operating surplus before corporate costs, interest, and income tax	27,256	1,722	-	28,978
Corporate costs				(1,559)
Unallocated costs				(970)
Net interest expense				(4,498)
Operating surplus before income tax				<b>\$21,951</b>
<b>SEGMENT ASSETS</b>				
Segment assets	128,343	24,105	-	152,448
Unallocated assets				575
Total assets				<b>\$153,023</b>
<b>OTHER SEGMENT INFORMATION</b>				
Depreciation	4,460	984	-	<b>\$5,444</b>
<b>EMPLOYEE NUMBERS</b>				
Operations	728	86	-	814
Unallocated				4
Total				<b>818</b>

**INDUSTRY SEGMENTAL INFORMATION**  
**(Six months ended 31 December 2006 – unaudited)**

	CARPET		WOOL		CONSOLIDATION ADJUSTMENTS		CONSOLIDATED	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000	2006 \$000	2005 \$000	2006 \$000	2005 \$000
<b>SEGMENT REVENUE</b>								
Revenue derived outside the Group	<b>82,996</b>	77,937	<b>19,262</b>	18,328	-	-	<b>102,258</b>	96,265
Inter-segment revenue	-	-	<b>2,013</b>	2,753	<b>(2,013)</b>	(2,753)	-	-
Interest received	<b>18</b>	30	-	-	-	-	<b>18</b>	30
Total revenue							<b>\$102,276</b>	\$96,295
<b>SEGMENT RESULTS</b>								
Operating surplus before corporate costs, interest, and income tax	<b>14,775</b>	14,365	<b>187</b>	(326)	-	-	<b>14,962</b>	14,039
Corporate costs							<b>(1,115)</b>	(959)
Unallocated costs							<b>(480)</b>	(446)
Net interest expense							<b>(2,191)</b>	(2,119)
Operating surplus before income tax							<b>\$11,176</b>	\$10,515
<b>SEGMENT ASSETS</b>								
Segment assets	<b>121,801</b>	125,859	<b>24,598</b>	25,863	-	-	<b>146,399</b>	151,722
Unallocated assets							<b>734</b>	841
Total assets							<b>\$147,133</b>	\$152,563
<b>OTHER SEGMENT INFORMATION</b>								
Depreciation	<b>2,185</b>	1,986	<b>519</b>	508	-	-	<b>\$2,704</b>	\$2,494
<b>EMPLOYEE NUMBERS</b>								
Operations	<b>714</b>	732	<b>90</b>	84	-	-	<b>804</b>	816
Unallocated							<b>4</b>	4
Total							<b>808</b>	820

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	NEW ZEALAND		AUSTRALIA		CONSOLIDATED	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000	2006 \$000	2005 \$000
<b>11 FINANCIAL REPORTING FOR SEGMENTS (CONTINUED)</b>						
<b>GEOGRAPHICAL SEGMENTAL INFORMATION</b>						
<b>(Six months ended 31 December 2006 – unaudited)</b>						
<b>SEGMENT REVENUE</b>						
Revenue derived outside the Group	<b>81,079</b>	78,142	<b>21,179</b>	18,123	<b>102,258</b>	96,265
Inter-segment revenue	-	-	-	-	-	-
Interest received	<b>18</b>	30	-	-	<b>18</b>	30
Total revenue					<b>\$102,276</b>	\$96,295
<b>SEGMENT RESULTS</b>						
Operating surplus before corporate costs, interest, and income tax	<b>12,290</b>	11,875	<b>2,672</b>	2,164	<b>14,962</b>	14,039
Corporate costs					<b>(1,115)</b>	(959)
Unallocated costs					<b>(480)</b>	(446)
Net interest expense					<b>(2,191)</b>	(2,119)
Operating surplus before income tax					<b>\$11,176</b>	\$10,515
<b>SEGMENT ASSETS</b>						
Segment assets	<b>127,716</b>	135,572	<b>18,683</b>	16,150	<b>146,399</b>	151,722
Unallocated assets					<b>734</b>	841
Total assets					<b>\$147,133</b>	\$152,563
<b>OTHER SEGMENT INFORMATION</b>						
Depreciation	<b>2,293</b>	2,095	<b>411</b>	399	<b>\$2,704</b>	\$2,494
<b>EMPLOYEE NUMBERS</b>						
Operations	<b>720</b>	730	<b>84</b>	86	<b>804</b>	816
Unallocated					<b>4</b>	4
Total					<b>808</b>	820

	NEW ZEALAND	AUSTRALIA	CONSOLIDATED
	2006	2006	2006
	\$000	\$000	\$000
<b>GEOGRAPHICAL SEGMENTAL INFORMATION</b>			
<b>(12 months ended 30 June 2006 – audited)</b>			
<b>SEGMENT REVENUE</b>			
Revenue derived outside the Group	163,471	38,223	201,694
Inter-segment revenue	-	-	-
Interest received	53	-	53
Total revenue			\$201,747
<b>SEGMENT RESULTS</b>			
Operating surplus before corporate costs, interest, and income tax	23,990	4,988	28,978
Corporate costs			(1,559)
Unallocated costs			(970)
Net interest expense			(4,498)
Operating surplus before income tax			\$21,951
<b>SEGMENT ASSETS</b>			
Segment assets	132,519	19,929	152,448
Unallocated assets			575
Total assets			\$153,023
<b>OTHER SEGMENT INFORMATION</b>			
Depreciation	4,576	868	\$5,444
<b>EMPLOYEE NUMBERS</b>			
Operations	727	87	814
Unallocated			4
Total			818

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**12 ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS**

In December 2002, the New Zealand Accounting Standards Review Board announced that New Zealand standards which comply with International Financial Reporting Standards (“NZ IFRS”) will apply to New Zealand entities for periods commencing 1 January 2007. Entities also have the option of early adoption from 1 January 2005, in line with Australian and European requirements.

The Group has commenced a project to identify the key impacts from adoption of NZ IFRS.

On transition to NZ IFRS, the Group will be required to restate comparative financial statements using NZ IFRS. All adjustments required on transition to NZ IFRS will be made retrospectively against opening retained earnings in an opening balance sheet.

The differences between existing NZ GAAP and NZ IFRS identified as potentially having a significant effect on Cavalier’s parent and consolidated financial performance and financial position have not yet been quantified by Cavalier. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented. Only a complete set of financial statements and notes together with comparative balances can provide a true and fair presentation of Cavalier’s financial position, results of operations and cash flows in accordance with NZ IFRS.

The purpose of this disclosure is, therefore, to provide a summary of the potential impact that Cavalier expects as a result of transitioning to NZ IFRS from current NZ GAAP based on the standards as they are today. The summary should not be taken as an exhaustive list of all the differences between existing NZ GAAP and NZ IFRS. It is possible that future developments to NZ IFRS will change the nature of the adjustments required by the time Cavalier reports its first financial statements prepared under NZ IFRS.

Cavalier’s first IFRS-compliant set of financial statements will be for the financial year ending 30 June 2008. This means that the financial position as at 30 June 2006 would have to be restated to NZ IFRS to provide a starting position for the comparative 2007 financial year. Cavalier intends to continue to provide users of the financial statements with updated information about the likely impacts of NZ IFRS on Cavalier’s earnings, cash flows and financial position.

**GOODWILL**

Goodwill relating to the acquisition of Hawkes Bay Woollscourers Limited and Canterbury Woollscourers Limited is currently amortised over 10 years. NZ IFRS does not permit goodwill to be amortised. As a result, goodwill amortisation will cease, but goodwill will be subject to impairment tests at balance dates.

**FINANCIAL INSTRUMENTS**

Accounting for financial instruments under NZ IFRS involves some major changes from NZ GAAP. If Cavalier qualifies for hedge accounting, all derivative contracts will be carried at fair value on Cavalier’s balance sheet. Changes in the fair value of derivative contracts held as effective hedges of future cash flows will be reflected in a reserve until the hedged transaction occurs. If Cavalier does not qualify for hedge accounting, then all derivative contracts will have to be marked to market and all resulting profits or losses will have to be recognised in the income statement.

**LONG-TERM EMPLOYEE BENEFITS**

Currently, under Cavalier’s NZ GAAP accounting policies, long service leave and retirement benefits are recognised when they vest. Under NZ IFRS, these employee benefits will be accrued from the date an employee is first employed, to the extent that it is probable that the benefit will eventually vest. Accordingly, Cavalier will record long service leave and retirement benefit at the present value of the current obligation calculated on this basis. This will increase liabilities and reduce retained earnings on transition date.

**DEFERRED TAX**

NZ IFRS requires the use of the “balance sheet” approach rather than the “income statement” approach applied under NZ GAAP. This will be calculated as a difference between accounting and tax base at each reporting date. Initial analysis indicates that Cavalier is likely to recognise additional deferred tax assets and liabilities as a result of this change in approach.

## DIRECTORY

### DIRECTORS:

G C W Biel B.E. (Mech.)

***Non-executive, Non-independent***

Deputy Chairman of 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

***Non-executive, Independent***

Chairman of Audit Committee

Member of Remuneration Committee

G S Hawkins B.Sc., B.Com., ACA

***Non-executive, Independent***

Member of Audit Committee

Member of Remuneration Committee

A M James B.Tech. (Hons.), Dip.Bus.Admin.

***Non-executive, Non-independent***

Chairman of Board

Member of Audit Committee

Chairman of Remuneration Committee

V T S Tan CA, ACIS

Finance Director

K L Thorpe M.A.

***Non-executive, Independent***

Member of Audit Committee

Member of Remuneration Committee

A C Timpson

***Non-executive, Non-independent***

Member of Remuneration Committee

### REGISTERED OFFICE:

7 Grayson Avenue, Papatoetoe, P O Box 97-040, Auckland 1730.

Telephone: 64-9-277 6000, Facsimile: 64-9-279 4756.

### SHARE REGISTRY:

Computershare Investor Services Limited.

Level 2, 159 Hurstmere Road, Takapuna, North Shore City, Private Bag 92-119, Auckland 1020.

Telephone: 64-9-488 8700, Facsimile: 64-9-488 8787, Investor Enquiries: 64-9-488 8777.

### AUDITORS:

KPMG

### LEGAL ADVISORS:

Minter Ellison Rudd Watts

Russell McVeagh

### BANKERS:

ANZ Banking Group (New Zealand) Limited

### WEB SITES:

Corporate – [www.cavcorp.co.nz](http://www.cavcorp.co.nz)

Carpet Operations – [www.cavbrem.co.nz](http://www.cavbrem.co.nz), [www.cavbrem.com.au](http://www.cavbrem.com.au), [www.ontera.com.au](http://www.ontera.com.au)

Share Registry – [www.computershare.co.nz](http://www.computershare.co.nz)

# Cavalier

C O R P O R A T I O N

## VALUES

- to maximise returns to shareholders in a sustainable and consistent manner, whilst having regard to the interests of our other stakeholders
- to be a good corporate citizen in terms of social and environmental responsibilities, and to conduct business with consistency and absolute integrity at all times

## VISION

- to be Australasia's best carpet manufacturer and wool processor, with each business unit outperforming its competitors in earnings, service, product innovation, and quality
- to achieve growth by leveraging off our experience and knowledge in core and allied businesses where we have distinct and proven competitive advantages

## MISSION

- to be the market leader, and the most preferred supplier, by focusing on brand values, superior product quality and innovation, and outstanding customer service
- to foster an organisational culture dedicated to best practice and continuous improvement in product quality, customer service, and operational efficiencies
- to attract and retain the very best people and to provide them with the environment to develop and grow
- to develop long-term alliances, with key business partners, that are strategic to our business units
- to ensure that returns from current and new investments in our existing business units exceed the Group's cost of capital
- to actively seek and evaluate growth opportunities that best fit our investment criteria and risk profile