



CAVALIER CORPORATION LIMITED

HALF YEAR REPORT  
TO 31 DECEMBER 2007

in touch

Cavalier  
CORPORATION

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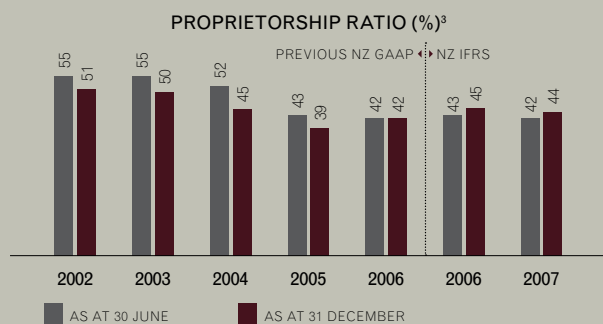
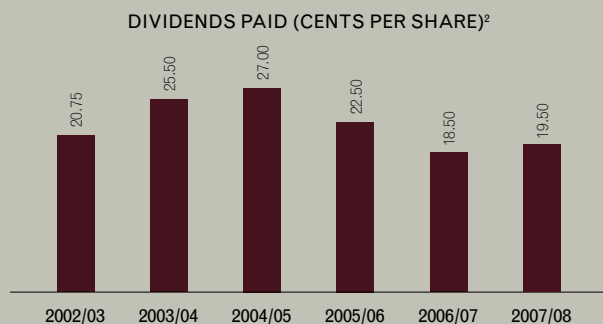
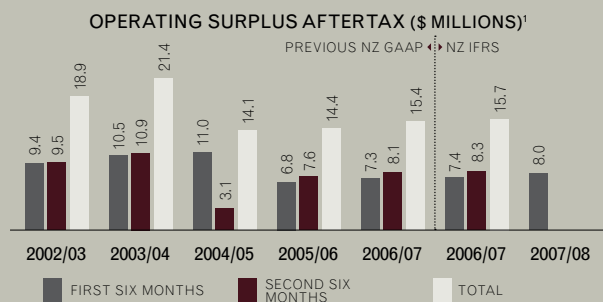
# FINANCIAL SUMMARY

	UNAUDITED SIX MONTHS ENDED		UNAUDITED 12 MONTHS ENDED
	31 DEC 2007 \$000	31 DEC 2006 \$000 RESTATED	30 JUN 2007 \$000 RESTATED
<b>REVENUE</b>	<b>\$111,539</b>	\$99,112	\$205,516
Earnings before interest, tax and depreciation	<b>18,200</b>	16,114	33,703
Depreciation	<b>(3,537)</b>	(2,716)	(5,603)
Earnings before interest and tax	<b>14,663</b>	13,398	28,100
Net interest expense	<b>(2,853)</b>	(2,191)	(4,427)
Profit before income tax	<b>11,810</b>	11,207	23,673
Income tax expense	<b>(3,839)</b>	(3,841)	(7,959)
<b>PROFIT AFTER INCOME TAX</b>	<b>\$7,971</b>	\$7,366	\$15,714
Profit after income tax attributable to:			
Shareholders of the Company	<b>7,648</b>	7,179	15,207
Minority shareholders of subsidiaries	<b>323</b>	187	507
Profit after income tax	<b>\$7,971</b>	\$7,366	\$15,714
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>\$16,018</b>	\$13,152	\$21,988
<b>BASIC AND DILUTED EARNINGS PER SHARE (ANNUALISED) (CENTS)</b> based on weighted average number of shares outstanding during the period of 65,495,595	<b>23.4</b>	21.9	23.2
<b>RETURN ON AVERAGE SHAREHOLDERS' EQUITY (ANNUALISED) (%)</b>	<b>21.4%</b>	21.1%	21.9%
<b>DIVIDENDS PAID PER SHARE (CENTS)</b>			
Previous year's final	<b>10.5</b>	10.0	10.0
Current year's first interim	<b>3.0</b>	3.0	3.0
Current year's second interim	<b>-</b>	-	5.5
<b>TOTAL</b>	<b>13.5</b>	13.0	18.5

	UNAUDITED AS AT		UNAUDITED AS AT
	31 DEC 2007	31 DEC 2006 RESTATED	30 JUN 2007 RESTATED
<b>NET TANGIBLE ASSET BACKING PER SHARE (\$)</b>	<b>\$1.05</b>	\$1.02	\$1.05
<b>PROPRIETORSHIP RATIO (%)</b>	<b>43.7%</b>	44.7%	42.3%
<b>NET INTEREST-BEARING DEBT TO EQUITY RATIO</b>	<b>48:52</b>	46:54	49:51

# DIRECTORS' REPORT

For the six months ended 31 December 2007



<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> 2007/08 include second interim dividend declared and paid after 31 December 2007.

<sup>3</sup> 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%.



**A M James**  
Chairman



**W K Chung**  
Managing Director

## FINANCIAL PERFORMANCE

The Directors of Cavalier Corporation Limited announce an unaudited profit after tax and minority interest of \$7.65 million for the six months ended 31 December 2007. This represents an increase of \$0.47 million, or 7%, on the \$7.18 million in the same period last year.

Both carpet and wool businesses of the Group performed ahead of last year.

Group operating revenue for the six months was \$112 million, an increase of 13% on the previous year.

## FINANCIAL POSITION

The Group accounts to 31 December 2007 were prepared under NZ IFRS (New Zealand equivalents to International Financial Report Standards) for the first time. As first-time adopters of NZ IFRS, the Group is required to establish a new opening position as at 1 July 2006, the start of our comparative periods, and to restate the previous year's comparatives using the new reporting standards.

A reconciliation of these restatements can be found in the notes to the accounts. The most significant impact is the increase in the carrying value of land and buildings at 1 July 2006 by \$11.4 million.

Equity as at 31 December 2007 stood at \$75 million and represented 44% of the total assets of the Group. This is an improvement on the 42% as at 30 June 2007.

Over the last six months, fixed assets increased by \$0.9 million due to capital spends in excess of depreciation, whilst current assets decreased by \$6.6 million in line with seasonal fluctuations in trading activities.

## CASH FLOWS

Net cash inflow from operating activities was \$16.0 million, an improvement of \$2.9 million on the same period last year.

Net cash outflow from investing activities was \$9.1 million, with \$4.2 million for fixed assets purchased and \$4.9 million for the other 50% of the Timaru wool scour acquired at the end of April last year.

## SEGMENT REVIEWS

### CARPET BUSINESS

For the six months to December 2007, our carpet business produced operating revenue of \$90 million, up 11% on the comparable period's \$81 million.

Profit (before interest and tax) was \$15 million, an increase of 3% on the previous period.

# DIRECTORS' REPORT

(Continued)

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Our carpet business comprises broadloom carpets and carpet tiles with their main markets in Australasia.

Carpet tiles performed strongly, with the continuation of favourable market conditions in commercial flooring on both sides of the Tasman. The substantial improvements made over the years, together with operational excellence, have enabled us to capitalise on the opportunities currently prevailing.

The operating revenue for carpet tiles was \$26 million for the period, which was up 24% on the previous comparable period. Profit (before tax and interest) of \$4.3 million was also up by a substantial 65%.

Market conditions for broadloom carpets were mixed. In Australia, our sales in residential carpets continued to benefit from the upward momentum of the previous year. We enjoyed good volume increases in both the premium and mid-market segments.

We found the New Zealand market conditions not as conducive as those in Australia and there was some pressure in the premium end of the residential market. Despite this, we managed an overall volume increase in New Zealand, which was pleasing in light of the market conditions that prevailed.

Broadloom carpet's operating revenue was up 7% at \$63 million. Profit (before tax and interest) was down 10% on the previous period as a result of margin and costs pressures and a stronger NZD:AUD exchange rate.

## WOOL BUSINESS

Wool scouring and wool buying are the operations within our wool business.

Operating revenue for the six months to December 2007 was \$22 million, up 18% on the same period last year. This increase was due, in the main, to the operating revenue from the wool scour at Timaru, which was previously not recognised in the accounts (and therefore not in the comparatives) because it was accounted for as an associate up until April 2007, when we acquired the remaining 50%.

Profit (before interest and tax) was up \$0.5 million for the same reason.

Our wool business was affected by the lower volume of wool available for scouring due to the drought in the East Coast of the North Island last year. At the same time, we saw a switch by some wool growers to alternative uses for their land as a result of the declining returns from wool.

## NORMAN ELLISON CARPETS

The Company completed the purchase of its 70% interest in Norman Ellison Carpets on 7 February 2008. The purchase, which was effective from 1 February 2008, will enable the Group to grow its market share in New Zealand and Australia and to enhance its earnings performance.

The Norman Ellison purchase was transacted through a new company incorporated for the purpose. To help fund Cavalier's capital contribution of \$5.6 million, being its 70% share of the capital of the new company, Cavalier issued, on 8 February 2008, 1.59 million shares (or 2.42% of the then total number of shares on issue) to the shareholders of the Norman Ellison business for a total cash consideration of \$5.1 million.

As advised previously, we expect the Norman Ellison business to generate, in its first full financial year, a turnover of \$60 million and EBITD (earnings before interest, tax and depreciation) of \$6.5 million, with Cavalier's share being 70% of that.

Whilst there will be five months of earnings from this business in Cavalier's June 2008 financial year results, the Directors caution that it will not be possible to simply pro-rata the expected future earnings of this business into the Group results to June 2008.

A number of operational issues will have to be attended to before the business can achieve the earnings target. At this stage, it is anticipated that it will take us until the end of June 2008 to sufficiently bed down the operation and be in a position to fully realise the earnings and synergies identified.

## MICROBIAL TECHNOLOGIES

The Directors decided, after balance date, to cease funding the Microbial research project with effect from 31 March 2008.

This means that apart from the closure costs consequent upon the termination of the project, there should be no further research costs after that date. The total costs, being research costs and the other costs to bring the project to closure, have been estimated at \$0.5 million for the second half of this financial year. On this basis, the cost of the Microbial research project for the year to 30 June 2008 is expected to be similar to the previous year.

However, Group earnings for the financial year 2009, and beyond, should benefit from the discontinuation of funding for this project.

The Company is currently in discussions with the partner-scientists involved in the project with the aim of securing a royalty agreement in the event that its intellectual property is used in commercial applications in future.

## EARNINGS OUTLOOK

The overall outlook for the carpet business is mildly positive, with growth in Australia helping to offset some of the softer conditions expected in the residential market in New Zealand. In addition, we will have the Norman Ellison business on board for the first time.

With regards to our wool business, we expect the current low wool prices to continue to dampen activity in this segment and anticipate operating conditions similar to those experienced in the first half of this financial year.

As previously advised, our budget for the June 2008 financial year, which excludes any contribution from the Norman Ellison business, is for a 5% increase in earnings. We are ahead of the same period last year after the first half, but not enough for us to change the year's budget as there are still many uncertainties ahead of us.

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On the basis of a 5% increase in earnings from our existing operations, and after incorporating our share of the Norman Ellison business for the five months to June 2008, our earnings outlook for the June 2008 financial year is for a 7% increase on the previous year (after tax and minorities).

## 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 2008 of 6 cents per ordinary share, an increase of 0.5 cent on the second interim dividend for the previous year.

This second interim dividend will be paid on Friday, 14 March 2008. The share register will close at 5 p.m. on Friday, 7 March 2008 for the purpose of determining entitlement to the dividend and will reopen on Monday, 10 March 2008.

Non-resident shareholders will also be receiving a supplementary dividend of 1.0588 cents per share together with their second interim dividend.

For and on behalf of the Board of Directors:



**A M James**  
Chairman  
18 February 2008

**W K Chung**  
Managing Director

## 6 AUDITORS' REVIEW REPORT

**TO THE SHAREHOLDERS OF CAVALIER CORPORATION LIMITED**

We have completed a review of the financial statements on pages 7 to 35 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 2007.

**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 2007 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 2007 and the results of its operations and cash flows for the six month period ended on that date.

Our review was completed on 18 February 2008 and our opinion is expressed as at that date.

Auckland

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December 2007

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	Notes	UNAUDITED SIX MONTHS ENDED		UNAUDITED 12 MONTHS ENDED
		31 DEC 2007 \$000	31 DEC 2006 \$000 RESTATED	30 JUN 2007 \$000 RESTATED
<b>CONTINUING OPERATIONS</b>				
<b>REVENUE</b>		<b>111,539</b>	99,112	205,516
Cost of sales		<b>(75,056)</b>	(67,135)	(139,975)
<b>GROSS PROFIT</b>		<b>36,483</b>	31,977	65,541
Other income		<b>79</b>	48	104
Distribution expenses		<b>(13,454)</b>	(11,686)	(23,738)
Administration expenses		<b>(7,959)</b>	(6,315)	(12,639)
Research and development expenses		<b>(480)</b>	(480)	(955)
<b>RESULTS FROM OPERATING ACTIVITIES</b>		<b>14,669</b>	13,544	28,313
Finance income		<b>8</b>	18	35
Finance expenses		<b>(2,861)</b>	(2,209)	(4,462)
<b>NET FINANCE COSTS</b>		<b>(2,853)</b>	(2,191)	(4,427)
Share of loss of equity-accounted investee		<b>(6)</b>	(146)	(213)
<b>PROFIT BEFORE INCOME TAX</b>	3	<b>11,810</b>	11,207	23,673
Income tax expense	4	<b>(3,839)</b>	(3,841)	(7,959)
<b>PROFIT AFTER TAX FOR THE PERIOD</b>		<b>\$7,971</b>	\$7,366	\$15,714
<b>ATTRIBUTABLE TO:</b>				
Equity holders of the Company		<b>7,648</b>	7,179	15,207
Minority shareholders of subsidiaries		<b>323</b>	187	507
<b>PROFIT AFTER TAX FOR THE PERIOD</b>		<b>\$7,971</b>	\$7,366	\$15,714
<b>BASIC AND DILUTED EARNINGS PER SHARE (CENTS)</b>		<b>11.7</b>	11.0	23.2
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING DURING THE PERIOD (000S)</b>		<b>65,495.6</b>	65,495.6	65,495.6

This statement is to be read in conjunction with the Notes on pages 11 to 35 and the previous year's annual financial statements.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2007

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	UNAUDITED SIX MONTHS ENDED		UNAUDITED 12 MONTHS ENDED
	31 DEC 2007 \$000	31 DEC 2006 \$000 RESTATED	30 JUN 2007 \$000 RESTATED
<b>TOTAL EQUITY AT BEGINNING OF THE PERIOD</b>	<b>74,739</b>	70,923	70,923
Effective portion of changes in fair value of cash flow hedges	<b>569</b>	2,109	1,606
Foreign currency translation differences for foreign operations	<b>318</b>	(786)	(978)
Income tax on income and expense recognised directly in equity	<b>(172)</b>	(698)	(526)
<b>INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY</b>	<b>715</b>	625	102
Profit after tax for the period	<b>7,971</b>	7,366	15,714
<b>TOTAL RECOGNISED INCOME AND EXPENSE FOR THE PERIOD</b>	<b>8,686</b>	7,991	15,816
Dividends paid			
to equity holders of the Company	<b>(8,842)</b>	(8,515)	(12,117)
to minority shareholders of subsidiaries	<b>(98)</b>	(98)	(98)
Equity-settled share-based payments	<b>100</b>	90	215
<b>TOTAL EQUITY AT END OF THE PERIOD</b>	<b>\$74,585</b>	\$70,391	\$74,739
<b>TOTAL EQUITY AT BEGINNING OF THE PERIOD</b>			
attributable to equity holders of the Company	<b>72,886</b>	69,462	69,462
attributable to minority shareholders of subsidiaries	<b>1,853</b>	1,461	1,461
	<b>\$74,739</b>	\$70,923	\$70,923
<b>TOTAL EQUITY AT END OF THE PERIOD</b>			
attributable to equity holders of the Company	<b>72,501</b>	68,845	72,886
attributable to minority shareholders of subsidiaries	<b>2,084</b>	1,546	1,853
	<b>\$74,585</b>	\$70,391	\$74,739

This statement is to be read in conjunction with the Notes on pages 11 to 35 and the previous year's annual financial statements.

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2007

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	Notes	UNAUDITED AS AT		UNAUDITED AS AT
		31 DEC 2007 \$000	31 DEC 2006 \$000 RESTATED	30 JUN 2007 \$000 RESTATED
<b>ASSETS</b>				
Property, plant and equipment		<b>90,848</b>	71,533	89,997
Intangible assets		<b>3,940</b>	2,014	3,940
Investments in equity-accounted investee		<b>168</b>	3,512	174
Deferred tax asset		<b>1,154</b>	947	1,555
<b>TOTAL NON-CURRENT ASSETS</b>		<b>96,110</b>	78,006	95,666
Cash at bank		<b>425</b>	2,647	815
Trade and other receivables		<b>29,370</b>	26,599	33,704
Advance to equity-accounted investee		-	4,405	-
Inventories		<b>42,803</b>	44,083	44,731
Derivative financial instruments		<b>567</b>	501	-
Tax receivable		<b>1,258</b>	1,097	1,728
<b>TOTAL CURRENT ASSETS</b>		<b>74,423</b>	79,332	80,978
<b>TOTAL ASSETS</b>		<b>\$170,533</b>	\$157,338	\$176,644
<b>EQUITY</b>				
Contributed equity		<b>12,840</b>	12,840	12,840
Cash flow hedging reserve		<b>419</b>	344	26
Foreign currency translation reserve		<b>(56)</b>	(182)	(374)
Share rights reserve		<b>659</b>	434	559
Retained earnings		<b>58,639</b>	55,409	59,835
<b>TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>		<b>72,501</b>	68,845	72,886
<b>MINORITY INTEREST</b>		<b>2,084</b>	1,546	1,853
<b>TOTAL EQUITY</b>		<b>74,585</b>	70,391	74,739
<b>LIABILITIES</b>				
Loans and borrowings	7	<b>68,674</b>	56,822	65,161
Employee benefits		<b>2,079</b>	1,878	2,021
Deferred income		<b>208</b>	218	208
Provisions		<b>125</b>	125	125
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>71,086</b>	59,043	67,515
Bank overdraft	7	<b>520</b>	1,105	342
Loans and borrowings	11	<b>1,013</b>	5,585	2,932
Trade creditors and accruals		<b>23,329</b>	21,214	26,264
Other payables		-	-	4,850
Derivative financial instruments		-	-	2
<b>TOTAL CURRENT LIABILITIES</b>		<b>24,862</b>	27,904	34,390
<b>TOTAL LIABILITIES</b>		<b>95,948</b>	86,947	101,905
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>\$170,533</b>	\$157,338	\$176,644

This statement is to be read in conjunction with the Notes on pages 11 to 35 and the previous year's annual financial statements.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2007

Notes	UNAUDITED SIX MONTHS ENDED		UNAUDITED 12 MONTHS ENDED
	31 DEC 2007 \$000	31 DEC 2006 \$000 RESTATED	30 JUN 2007 \$000 RESTATED
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
	115,965	103,323	203,456
	(93,741)	(85,753)	(170,084)
	22,224	17,570	33,372
Interest received	8	18	35
Other receipts	79	112	104
GST refunded/(paid)	(410)	470	132
Interest paid	(2,688)	(2,183)	(4,529)
Income tax paid	(3,195)	(2,835)	(7,126)
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>16,018</b>	<b>13,152</b>	<b>21,988</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of property, plant and equipment	41	50	127
Acquisition of property, plant and equipment	(4,267)	(3,976)	(6,995)
Step-acquisition of Canterbury Woolscourers Limited	(4,850)	-	(1,682)
<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>(9,076)</b>	<b>(3,926)</b>	<b>(8,550)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Borrowings raised/(repaid)	3,291	(2,541)	(1,481)
Dividends paid -			
to equity holders of the Company	(8,842)	(8,515)	(12,117)
to minority shareholders of subsidiaries	(98)	(98)	(98)
Advance to equity-accounted investee	-	(132)	(210)
<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>(5,649)</b>	<b>(11,286)</b>	<b>(13,906)</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
	1,293	(2,060)	(468)
Cash and cash equivalents at beginning of the period	(2,459)	(1,942)	(1,942)
Effect of exchange rate changes on cash	58	(41)	(49)
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b>\$(1,108)</b>	<b>\$(4,043)</b>	<b>\$(2,459)</b>

This statement is to be read in conjunction with the Notes on pages 11 to 35 and the previous year's annual financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 31 December 2007

## 1. GENERAL INFORMATION

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

Apart from Cavalier Wool Holdings Limited (formerly Hawkes Bay Woolscourers Limited) and Cavalier Woolscourers Limited (formerly Canterbury Woolscourers Limited) (both 92.5% owned) and Ontera Modular Carpets Proprietary Limited (89.5% owned), all other subsidiaries of the Company are wholly-owned.

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

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 18 February 2008.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 2006 (which has been restated from previous NZ GAAP to NZ IFRS), are unaudited. The comparative information for the 12 months ended 30 June 2007 (which has also been restated from previous NZ GAAP to NZ IFRS) is also unaudited. The interim financial statements should be read in conjunction with the annual financial statements for the year ended 30 June 2007.

## a. Basis of preparation of interim financial statements

The principal accounting policies adopted in the preparation of the interim financial statements are set out below.

## ENTITIES REPORTING

The interim financial statements incorporate the consolidated financial statements of the Group (comprising Cavalier and its subsidiaries) and the Group's interest in equity-accounted investees as at, and for the six months ended, 31 December 2007. Separate financial statements of the Company are not presented.

The Company and its subsidiaries are designated as profit-oriented entities for financial reporting purposes and the interim financial statements as presented are appropriate for such entities.

## STATUTORY BASE

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 (which means complying with NZ IFRS).

## NOTES TO THE FINANCIAL STATEMENTS

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(Continued)

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**APPLICATION OF NZ IFRS 1****First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS)**

The Group's interim financial statements for the six months ended 31 December 2007 are the first financial statements that are prepared under NZ IFRS, specifically NZ IAS 34 and NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*.

The accounting policies used are compliant with NZ IFRS and will be those used in the annual financial statements for the 12 months ending 30 June 2008. These policies, unless otherwise stated, have also been consistently applied to all the comparative periods presented in these financial statements and in preparing the opening NZ IFRS balance sheet as at 1 July 2006 for the purposes of the transition to NZ IFRS.

Compliance with NZ IFRS ensures that the financial statements also comply with International Financial Reporting Standards ("IFRS").

The accounting policies have also been applied consistently by Group entities.

An explanation of how the transition to NZ IFRS has affected the previously reported financial position and financial performance of the Group is set out in Note 13. In particular, there are five reconciliations that provide details of the impact of the transition on:

- Profit for the six months ended 31 December 2006
- Profit for the 12 months ended 30 June 2007
- Equity and financial position at 1 July 2006 – Opening position
- Equity and financial position at 31 December 2006
- Equity and financial position at 30 June 2007

There are no material differences between the cash flow statement presented under NZ IFRS and the cash flow statement presented under the previous NZ GAAP.

**HISTORICAL COST CONVENTION**

These interim financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through the Income Statement.

**SIGNIFICANT ACCOUNTING ESTIMATES**

The preparation of financial statements in conformity with NZ IFRS requires the use of certain significant accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

The Board of Directors regularly reviews all accounting policies and areas of judgement in presenting the financial statements.

**b. Basis of consolidation****SUBSIDIARIES**

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain the benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

**ASSOCIATES**

Associates are entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity-accounted investees). The consolidated financial statements include the Group's share of the income and expenses of equity-accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation, or has made payments, on behalf of the investee.

**TRANSACTIONS ELIMINATED ON CONSOLIDATION**

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**c. Foreign currency****FOREIGN CURRENCY TRANSACTIONS**

Transactions in foreign currencies are translated to the respective functional currencies of group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of a financial liability designated as a hedge of a non-monetary asset (see below).

**FOREIGN OPERATIONS**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to New Zealand dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to New Zealand dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

**HEDGE OF NON-MONETARY ASSET**

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a non-monetary asset are recognised directly in equity, in the FCTR, to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognised in profit or loss. When the hedged non-monetary asset is disposed of, the cumulative amount in equity is transferred to profit or loss as an adjustment to the profit or loss on disposal.

## NOTES TO THE FINANCIAL STATEMENTS

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**d. Derivative financial instruments**

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investing activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value and transaction costs are expensed immediately. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

Where derivatives qualify for hedge accounting, changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedge item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases, the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

**e. Non-derivative financial instruments**

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents used in the Statement of Cash Flows comprises cash on hand, deposits held at call with financial institutions, bank overdrafts used for cash management purposes and other at call borrowings.

Accounting for finance income and expense is covered separately.

**f. Share capital**

Incremental costs directly attributable to the issue of ordinary shares and share rights are recognised as a deduction from equity.

**g. Property, plant and equipment****RECOGNITION AND MEASUREMENT**

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. At 1 July 2006, the date of transition to NZ IFRS, the cost of plant and equipment was that recognised under previous NZ GAAP, whilst in the case of property, cost was determined by reference to its fair value at that date.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the cost of dismantling and removing the items and restoring the site on which they are located. Purchase software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

**DEPRECIATION**

Depreciation is recognised in the Income Statement over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The principal rates used for the current and comparative periods are as follows:

• buildings	1.0 – 2.5% straight line
• plant and equipment	6.7 – 10.0% straight line
• other assets	
- fixtures and fittings	10.0% straight line
- computer equipment	20.0 – 25.0% straight line
- motor vehicles and office equipment	20.0% diminishing value

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

**h. Goodwill**

At 1 July 2006, the date of transition to NZ IFRS, goodwill represents the amount recognised under previous NZ GAAP.

**SUBSEQUENT ACQUISITIONS**

Goodwill arising on acquisitions of subsidiaries and equity-accounted investees represents the excess of the cost of investment over the fair value of identifiable assets, liabilities and contingent liabilities acquired at the date of exchange.

**SUBSEQUENT MEASUREMENT**

Goodwill is measured at cost less accumulated impairment losses. In respect of equity-accounted investee, the carrying amount of goodwill is included in the carrying amount of the investment.

**i. Research and development**

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has significant resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss when incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

## NOTES TO THE FINANCIAL STATEMENTS

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**j. Leased assets**

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

**k. Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**l. Impairment****FINANCIAL ASSETS**

The Group's financial assets are trade and other receivables of short duration.

Impairment losses on an individual basis are determined by an evaluation of the exposures on an instrument by instrument basis. All individual instruments that are considered significant are subject to this approach.

For trade receivables which are not significant on an individual basis, collective impairment is assessed on a portfolio basis based on number of days overdue, and taking into account the historical loss experienced in portfolios with a similar amount of days overdue.

**NON-FINANCIAL ASSETS**

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax, are reviewed at each reporting date to determine whether there is any objective evidence of impairment. If any such evidence exists, the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the Income Statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect to other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**m. Employee benefits****LONG-TERM BENEFITS**

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods adjusted for the probability of the benefits vesting, discounted at the appropriate rate to determine its present value.

**SHORT-TERM BENEFITS**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

**SHARE-BASED PAYMENT TRANSACTIONS**

The estimated fair value of rights issued to senior executives under the Cavalier Corporation Limited 2000 Executive Share Rights Plan is recognised as an expense over the minimum three-year period between the issue date of the rights and the earliest exercise date of the rights. At the same time, a corresponding amount is recognised as a credit to equity in the Statement of Changes in Equity.

The estimated fair value of the rights issued is determined using the Black-Scholes option pricing model.

The market value of shares issued to the senior executives upon the exercise of the rights will be accounted for within shareholders' equity.

**n. Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

**o. Revenue****GOODS SOLD**

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale.

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## NOTES TO THE FINANCIAL STATEMENTS

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**SERVICES RENDERED**

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date.

**GOVERNMENT GRANTS**

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will be able to comply with the conditions associated with the grants.

Grants that compensate the Group for expenses incurred are recognised in the Income Statement on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are initially offset against the carrying value of the underlying asset and then recognised in the Income Statement on a systematic basis over the useful life over which the underlying asset is depreciated.

**p. Lease payments**

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

**q. Finance income and expenses**

Finance income comprises interest income on hire purchases debts.

Finance expenses comprise interest expense on borrowings. All borrowing costs are recognised in profit or loss using the effective interest method.

**r. Income tax expense**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for the following temporary differences:

- the initial recognition of goodwill,
- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and
- differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**s. Earnings per share**

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise the share rights granted to senior executives under the Cavalier Corporation Limited 2000 Executive Share Rights Plan.

**t. Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on business segments.

**u. Goods and Services Tax (GST)**

The income statement has been prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated net of GST, with the exception of trade receivables and payables, which include GST invoiced.

**v. Determination of fair values**

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

**PROPERTY, PLANT AND EQUIPMENT**

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

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## NOTES TO THE FINANCIAL STATEMENTS

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**INTANGIBLE ASSETS**

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

**INVENTORIES**

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

**TRADE AND OTHER RECEIVABLES**

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date, except that in the case of short-term receivables, face value is a reasonable approximation of fair value.

	SIX MONTHS ENDED		12 MONTHS ENDED
	31 DEC 2007 \$'000	31 DEC 2006 \$'000	30 JUN 2007 \$'000
<b>3. EXPENSES</b>			
<b>PROFIT BEFORE INCOME TAX INCLUDES THE FOLLOWING:</b>			
Depreciation	3,537	2,716	5,603
Gain on disposal of property, plant and equipment	(3)	(1)	(14)
Loss on disposal of property, plant and equipment	69	64	80
Operating lease and rental costs	1,965	1,458	3,395
Research and development expenses relating to the Microbial project	480	480	955

**4. INCOME TAX**

The New Zealand corporate tax rate will change from 33% to 30% with effect from 1 July 2008 for the Group. This revised rate has not impacted the current tax payable or receivable for the period, but will do so in future periods. However, the change in tax rate was taken into account in the measurement of the Group's deferred tax and future income tax benefit balances as at 30 June 2007, with a resulting increase in the income tax expense for the year ended on that date by \$266,000.

Consequent upon the restatement of the financial statements for the year ended 30 June 2007 to NZ IFRS, the impact of the impending tax rate change on the Group's restated deferred tax and future income tax benefit balances as at 30 June 2007 was \$155,000. This is a reduction of \$111,000 on the \$266,000 under previous NZ GAAP.

	SIX MONTHS ENDED		12 MONTHS ENDED
	31 DEC 2007 \$'000	31 DEC 2006 \$'000	30 JUN 2007 \$'000
<b>5. CASH FLOW RECONCILIATION</b>			
<b>PROFIT AFTER TAX FOR THE PERIOD</b>	7,971	7,366	15,714
Add/(Deduct) non-cash items:			
Equity-settled share-based transactions	100	90	215
Depreciation	3,537	2,716	5,603
Share of loss of equity-accounted investee	6	146	213
Deferred tax asset	249	(41)	(1,161)
Employee benefits	58	143	286
Deferred income	-	85	159
Net loss on sale of property, plant and equipment	66	63	66
Net (gain)/loss on foreign currency balance	6	(28)	(28)
<b>CHANGES IN WORKING CAPITAL ITEMS:</b>			
Trade and other receivables	4,516	3,789	(1,969)
Inventories	2,177	(375)	(552)
Tax receivable	448	944	1,995
Trade creditors and accruals	(3,116)	(1,746)	1,447
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>\$16,018</b>	<b>\$13,152</b>	<b>\$21,988</b>

**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 \$2.8 million incurred in New Zealand and \$1.5 million in Australia.

**7. ASSETS PLEDGED AS SECURITY**

The Group's funding facilities are with the ANZ National Bank Limited (ANZ) and the Bank of New Zealand Limited (BNZ). These funding facilities are secured by registered mortgages over specific properties, by general security agreements entered into between some of the subsidiaries with the ANZ and the BNZ and by cross guarantees between companies in the Group.

**8. EVENTS AFTER BALANCE DATE****ACQUISITION OF THE NORMAN ELLISON CARPET BUSINESS**

The Company announced, in September 2007, that it had entered into an agreement with the shareholders of Norman Ellison Holdings Limited for the acquisition of a 70% interest in Norman Ellison Carpets.

## NOTES TO THE FINANCIAL STATEMENTS

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Auckland-based Norman Ellison Carpets was founded in 1975 by its then majority shareholder, Warwick Norman. Set up initially as a carpet distributor, it has since grown to become one of the few integrated carpet manufacturers in New Zealand with its own yarn spinning and carpet manufacturing facilities sited in Onehunga, Auckland. It is also an importer and distributor of nylon carpets through its wholly owned subsidiary, Carpet Distributors. Norman Ellison Carpets is well represented on both sides of the Tasman and it operates two distribution centres - one based in Auckland and the other in Brisbane.

The effective date of the acquisition was 1 February 2008 and was effected through a new company set up to acquire the assets and business of Norman Ellison Carpets.

Cavalier has subscribed for a 70% shareholding in the new company whilst the shareholders of Norman Ellison Holdings Limited have taken up the remaining 30%. The new company has a paid-up capital of \$8 million and will have net operating assets of around \$23 million.

The change of ownership of Norman Ellison Carpets, and its association with Cavalier, will enable it to expand its carpet operations in the New Zealand market, but more particularly in the Australian market where there will be significant opportunities for growth through better market and product representation. At the same time, improved earnings are also expected to come from the synergistic benefits that will arise from the combination of the two businesses.

In its first full year, the new company is expected to have a turnover of \$60 million and EBITD (earnings before interest, tax and depreciation) of \$6.5 million, with Cavalier's share being 70% of that.

**ISSUE OF NEW SHARES**

On 8 February 2008, the Company issued 1,586,849 new ordinary shares in the capital of the Company at \$3.23 per share to the shareholders of Norman Ellison Holdings Limited to finance its 70% shareholding in the new company, with the balance coming from borrowings. This brought the total number of shares on issue in the Company to 67,082,444.

**MICROBIAL PROJECT**

The Directors decided, on 14 February 2008, to conclude the Company's involvement in the Microbial research project with effect from 31 March 2008. The estimated costs relating to this project for the current financial year to 30 June 2008, after taking into account any closure costs associated with the conclusion of the project, is not expected to be significantly different from those incurred in the previous financial year.

**DIVIDENDS**

The Directors declared, on 15 February 2008, a fully imputed second interim dividend of 6 cents per share on the 67,082,444 shares on issue to give a total second interim dividend of \$4,024,947.

	31 DEC 2007 \$000	31 DEC 2006 \$000	30 JUN 2007 \$000
<b>9. CAPITAL EXPENDITURE COMMITMENTS</b>			
Capital expenditure commitments	<b>\$1,435</b>	\$1,309	\$1,479

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	31 DEC 2007 \$000	31 DEC 2006 \$000	30 JUN 2007 \$000
<b>10. CONTINGENT LIABILITIES</b>			
Bank guarantees in respect of operating leases	<b>\$439</b>	\$269	\$132

	31 DEC 2007 \$000	31 DEC 2006 \$000	30 JUN 2007 \$000
<b>11. RELATED PARTY TRANSACTIONS</b>			
Loans and borrowings include borrowings from the following related parties:			
Chippendale Holdings Limited	<b>950</b>	3,887	539
Rural Aviation (1963) Limited	<b>63</b>	1,698	793
Total	<b>\$1,013</b>	\$5,585	\$1,332
Interest rate	<b>8.30%</b>	7.30%	8.05%

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 8.35%, 7.35% and 8.10% 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 890,000 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 to 31 December 2007. 870,000 share rights were issued during the six months to December 2006. The estimated fair value of these share rights were \$0.30 each at date of issue (2006 \$0.30).

**12. 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, EnCasa, 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 carpet operation, which covers the manufacturing and sales of the Bremworth, Cavalier Bremworth, Knightsbridge, Kimberley, EnCasa 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.

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.

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	CARPET			WOOL			CONSOLIDATION ADJUSTMENTS			CONSOLIDATED		
	SIX MONTHS ENDED		12 MONTHS ENDED	SIX MONTHS ENDED		12 MONTHS ENDED	SIX MONTHS ENDED		12 MONTHS ENDED	SIX MONTHS ENDED		12 MONTHS ENDED
	31 DEC 2007 \$000	31 DEC 2006 \$000	30 JUN 2007 \$000	31 DEC 2007 \$000	31 DEC 2006 \$000	30 JUN 2007 \$000	31 DEC 2007 \$000	31 DEC 2006 \$000	30 JUN 2007 \$000	31 DEC 2007 \$000	31 DEC 2006 \$000	30 JUN 2007 \$000
<b>SEGMENT REPORTING – INDUSTRY</b>												
<b>SEGMENT REVENUE</b>												
Revenue derived outside the Group	89,627	80,535	161,400	21,912	18,577	44,116	-	-	-	111,539	99,112	205,516
Inter-segment revenue	-	-	-	2,149	2,014	4,902	(2,149)	(2,014)	(4,902)	-	-	-
Total external revenue										\$111,539	\$99,112	\$205,516
<b>SEGMENT RESULTS</b>												
Profit before unallocated costs and income tax	15,020	14,521	28,256	1,118	618	2,731	-	-	-	16,138	15,139	30,987
Corporate costs										(989)	(1,115)	(1,719)
Finance costs										(2,853)	(2,191)	(4,427)
Other unallocated costs										(480)	(480)	(955)
Equity-accounted investee										(6)	(146)	(213)
Profit before income tax										\$11,810	\$11,207	\$23,673
<b>SEGMENT ASSETS</b>												
Segment assets	132,309	129,958	136,691	37,773	23,134	39,473	-	-	-	170,082	153,092	176,164
Equity-accounted investee	-	-	-	168	3,512	174	-	-	-	168	3,512	174
Unallocated assets										283	734	306
Total assets										\$170,533	\$157,338	\$176,644
<b>OTHER SEGMENT INFORMATION</b>												
Depreciation	2,400	2,188	4,348	1,137	528	1,255	-	-	-	\$3,537	\$2,716	\$5,603
Employee numbers												
Operations	732	714	731	116	90	119	-	-	-	848	804	850
Unallocated										4	4	4
Total										852	808	854

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	NEW ZEALAND			AUSTRALIA			CONSOLIDATION ADJUSTMENTS			CONSOLIDATED		
	SIX MONTHS ENDED		12 MONTHS ENDED	SIX MONTHS ENDED		12 MONTHS ENDED	SIX MONTHS ENDED		12 MONTHS ENDED	SIX MONTHS ENDED		12 MONTHS ENDED
	31 DEC 2007 \$000	31 DEC 2006 \$000	30 JUN 2007 \$000	31 DEC 2007 \$000	31 DEC 2006 \$000	30 JUN 2007 \$000	31 DEC 2007 \$000	31 DEC 2006 \$000	30 JUN 2007 \$000	31 DEC 2007 \$000	31 DEC 2006 \$000	30 JUN 2007 \$000
<b>SEGMENT REPORTING – GEOGRAPHICAL</b>												
<b>SEGMENT REVENUE</b>												
Revenue derived outside the Group	85,246	77,933	161,749	26,293	21,179	43,767	-	-	-	111,539	99,112	205,516
Inter-segment revenue	860	1,228	2,395	-	-	-	(860)	(1,228)	(2,395)	-	-	-
Total revenue										\$111,539	\$99,112	\$205,516
<b>SEGMENT RESULTS</b>												
Profit before unallocated costs and income tax	11,888	12,562	24,751	4,250	2,577	6,236	-	-	-	16,138	15,139	30,987
Corporate costs										(989)	(1,115)	(1,719)
Finance costs										(2,853)	(2,191)	(4,427)
Other unallocated costs										(480)	(480)	(955)
Equity-accounted investee										(6)	(146)	(213)
Profit before income tax										\$11,810	\$11,207	\$23,673
<b>SEGMENT ASSETS</b>												
Segment assets	148,694	135,114	155,359	21,388	17,978	20,805	-	-	-	170,082	153,092	176,164
Equity-accounted investee	168	3,512	174	-	-	-	-	-	-	168	3,512	174
Unallocated assets										283	734	306
Total assets										\$170,533	\$157,338	\$176,644
<b>OTHER SEGMENT INFORMATION</b>												
Depreciation	3,143	2,305	4,817	394	411	786	-	-	-	\$3,537	\$2,716	\$5,603
Employee numbers												
Operations	761	720	760	87	84	90	-	-	-	848	804	850
Unallocated										4	4	4
Total										852	808	854

## NOTES TO THE FINANCIAL STATEMENTS

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**13. EXPLANATION OF TRANSITION TO NEW ZEALAND EQUIVALENTS TO IFRS (NZ IFRS)**

As stated in Note 2 (a), these are the Group's first financial statements prepared in accordance with NZ IFRS.

The accounting policies set out in Note 2 have been applied in preparing the financial statements for the six months ended 31 December 2007, the comparative information presented in these financial statements for the six months ended 31 December 2006 and the 12 months ended 30 June 2007 and in the preparation of an opening NZ IFRS balance sheet as at 1 July 2006 (the Group's date of transition).

In preparing its opening NZ IFRS balance sheet and the restated financial statements for the six months ended 31 December 2006 and the 12 months ended 30 June 2007, the Group has adjusted amounts reported previously in financial statements prepared in accordance with previous NZ GAAP.

An explanation of how the transition from previous NZ GAAP to NZ IFRS has affected the Group's financial performance and financial position is set out in the following tables and the notes that accompany the tables.

**1. Reconciliation of profit under previous NZ GAAP to profit under NZ IFRS****a) Reconciliation of profit for the six months ended 31 December 2006**

	Notes	PREVIOUS NZ GAAP \$000	EFFECT OF TRANSITION TO NZ IFRS \$000	NZ IFRS \$000
<b>CONTINUING OPERATIONS</b>				
<b>REVENUE</b>	j	102,146	(3,034)	<b>99,112</b>
Cost of sales	b, h, i	(67,038)	(97)	<b>(67,135)</b>
<b>GROSS PROFIT</b>		35,108	(3,131)	<b>31,977</b>
Other income		48	-	<b>48</b>
Distribution expenses	j	(14,720)	3,034	<b>(11,686)</b>
Administration expenses	d, f	(6,149)	(166)	<b>(6,315)</b>
Research and development expenses		(480)	-	<b>(480)</b>
Other expenses	a	(278)	278	<b>-</b>
<b>RESULTS FROM OPERATING ACTIVITIES</b>		13,529	15	<b>13,544</b>
Finance income		18	-	<b>18</b>
Finance expenses		(2,209)	-	<b>(2,209)</b>
<b>NET FINANCE COSTS</b>		(2,191)	-	<b>(2,191)</b>
Share of loss of equity-accounted investee	a	(162)	16	<b>(146)</b>
<b>PROFIT BEFORE INCOME TAX</b>		11,176	31	<b>11,207</b>
Income tax expense	e	(3,921)	80	<b>(3,841)</b>
<b>PROFIT AFTER TAX FOR THE PERIOD</b>		\$7,255	\$111	<b>\$7,366</b>
<b>ATTRIBUTABLE TO:</b>				
Equity holders of the Company		7,068	111	<b>7,179</b>
Minority shareholders of subsidiaries		187	-	<b>187</b>
<b>PROFIT AFTER TAX FOR THE PERIOD</b>		\$7,255	\$111	<b>\$7,366</b>

**b) Reconciliation of profit for the 12 months ended 30 June 2007**

	Notes	PREVIOUS NZ GAAP \$000	EFFECT OF TRANSITION TO NZ IFRS \$000	NZ IFRS \$000
<b>CONTINUING OPERATIONS</b>				
<b>REVENUE</b>	j	211,564	(6,048)	<b>205,516</b>
Cost of sales	b, h, i	(139,792)	(183)	<b>(139,975)</b>
<b>GROSS PROFIT</b>		71,772	(6,231)	<b>65,541</b>
Other income		104	-	<b>104</b>
Distribution expenses	j	(29,786)	6,048	<b>(23,738)</b>
Administration expenses	d, f	(12,307)	(332)	<b>(12,639)</b>
Research and development expenses		(955)	-	<b>(955)</b>
Other expenses	a	(572)	572	<b>-</b>
<b>RESULTS FROM OPERATING ACTIVITIES</b>		28,256	57	<b>28,313</b>
Finance income		35	-	<b>35</b>
Finance expenses		(4,462)	-	<b>(4,462)</b>
<b>NET FINANCE COSTS</b>		(4,427)	-	<b>(4,427)</b>
Share of loss of equity-accounted investee	a	(240)	27	<b>(213)</b>
<b>PROFIT BEFORE INCOME TAX</b>		23,589	84	<b>23,673</b>
Income tax expense	e	(8,226)	267	<b>(7,959)</b>
<b>PROFIT AFTER TAX FOR THE PERIOD</b>		\$15,363	\$351	<b>\$15,714</b>
<b>ATTRIBUTABLE TO:</b>				
Equity holders of the Company		14,857	350	<b>15,207</b>
Minority shareholders of subsidiaries		506	1	<b>507</b>
<b>PROFIT AFTER TAX FOR THE PERIOD</b>		\$15,363	\$351	<b>\$15,714</b>

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## 2. Reconciliation of equity under previous NZ GAAP to equity under NZ IFRS

a) At the date of transition to NZ IFRS: 1 July 2006

Notes	PREVIOUS NZ GAAP \$000	EFFECT OF TRANSITION TO NZ IFRS \$000	NZ IFRS \$000
<b>ASSETS</b>			
Property, plant and equipment	60,404	10,712	<b>71,116</b>
Intangible assets	1,936	-	<b>1,936</b>
Investments in equity-accounted investee	3,736	-	<b>3,736</b>
Deferred tax asset	2,232	(577)	<b>1,655</b>
<b>TOTAL NON-CURRENT ASSETS</b>	<b>68,308</b>	<b>10,135</b>	<b>78,443</b>
Cash at bank	3,160	-	<b>3,160</b>
Trade and other receivables	30,992	-	<b>30,992</b>
Advance to equity-accounted investee	4,273	-	<b>4,273</b>
Inventories	44,265	-	<b>44,265</b>
Tax receivable	2,025	-	<b>2,025</b>
<b>TOTAL CURRENT ASSETS</b>	<b>84,715</b>	<b>-</b>	<b>84,715</b>
<b>TOTAL ASSETS</b>	<b>\$153,023</b>	<b>\$10,135</b>	<b>\$163,158</b>
<b>EQUITY</b>			
Share capital	12,840	-	<b>12,840</b>
Cash flow hedging reserve	-	(1,071)	<b>(1,071)</b>
Foreign currency translation reserve	604	-	<b>604</b>
Share rights reserve	344	-	<b>344</b>
Retained earnings	49,281	7,464	<b>56,745</b>
<b>TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>	<b>63,069</b>	<b>6,393</b>	<b>69,462</b>
<b>MINORITY INTEREST</b>	<b>1,415</b>	<b>46</b>	<b>1,461</b>
<b>TOTAL EQUITY</b>	<b>64,484</b>	<b>6,439</b>	<b>70,923</b>
<b>LIABILITIES</b>			
Loans and borrowings	59,976	-	<b>59,976</b>
Employee benefits	-	1,735	<b>1,735</b>
Deferred income	-	228	<b>228</b>
Provisions	-	125	<b>125</b>
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>59,976</b>	<b>2,088</b>	<b>62,064</b>
Bank overdraft	168	-	<b>168</b>
Loans and borrowings	4,934	-	<b>4,934</b>
Trade creditors and accruals	23,461	-	<b>23,461</b>
Derivative financial instruments	-	1,608	<b>1,608</b>
<b>TOTAL CURRENT LIABILITIES</b>	<b>28,563</b>	<b>1,608</b>	<b>30,171</b>
<b>TOTAL LIABILITIES</b>	<b>88,539</b>	<b>3,696</b>	<b>92,235</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>\$153,023</b>	<b>\$10,135</b>	<b>\$163,158</b>

b) At the end of the last half year reporting period under previous NZ GAAP: 31 December 2006

Notes	PREVIOUS NZ GAAP \$000	EFFECT OF TRANSITION TO NZ IFRS \$000	NZ IFRS \$000
<b>ASSETS</b>			
Property, plant and equipment	60,928	10,605	<b>71,533</b>
Intangible assets	1,736	278	<b>2,014</b>
Investments in equity-accounted investee	3,496	16	<b>3,512</b>
Deferred tax asset	2,142	(1,195)	<b>947</b>
<b>TOTAL NON-CURRENT ASSETS</b>	<b>68,302</b>	<b>9,704</b>	<b>78,006</b>
Cash at bank	2,647	-	<b>2,647</b>
Trade and other receivables	26,599	-	<b>26,599</b>
Advance to equity-accounted investee	4,405	-	<b>4,405</b>
Inventories	44,083	-	<b>44,083</b>
Derivative financial instruments	-	501	<b>501</b>
Tax receivable	1,097	-	<b>1,097</b>
<b>TOTAL CURRENT ASSETS</b>	<b>78,831</b>	<b>501</b>	<b>79,332</b>
<b>TOTAL ASSETS</b>	<b>\$147,133</b>	<b>\$10,205</b>	<b>\$157,338</b>
<b>EQUITY</b>			
Share capital	12,840	-	<b>12,840</b>
Cash flow hedging reserve	-	344	<b>344</b>
Foreign currency translation reserve	(182)	-	<b>(182)</b>
Share rights reserve	411	23	<b>434</b>
Retained earnings	47,834	7,575	<b>55,409</b>
<b>TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>	<b>60,903</b>	<b>7,942</b>	<b>68,845</b>
<b>MINORITY INTEREST</b>	<b>1,504</b>	<b>42</b>	<b>1,546</b>
<b>TOTAL EQUITY</b>	<b>62,407</b>	<b>7,984</b>	<b>70,391</b>
<b>LIABILITIES</b>			
Loans and borrowings	56,822	-	<b>56,822</b>
Employee benefits	-	1,878	<b>1,878</b>
Deferred income	-	218	<b>218</b>
Provisions	-	125	<b>125</b>
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>56,822</b>	<b>2,221</b>	<b>59,043</b>
Bank overdraft	1,105	-	<b>1,105</b>
Loans and borrowings	5,585	-	<b>5,585</b>
Trade creditors and accruals	21,214	-	<b>21,214</b>
<b>TOTAL CURRENT LIABILITIES</b>	<b>27,904</b>	<b>-</b>	<b>27,904</b>
<b>TOTAL LIABILITIES</b>	<b>84,726</b>	<b>2,221</b>	<b>86,947</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>\$147,133</b>	<b>\$10,205</b>	<b>\$157,338</b>

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## NOTES TO THE FINANCIAL STATEMENTS

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## c) At the end of the last reporting period under previous NZ GAAP: 30 June 2007

	Notes	PREVIOUS NZ GAAP \$000	EFFECT OF TRANSITION TO NZ IFRS \$000	NZ IFRS \$000
<b>ASSETS</b>				
Property, plant and equipment	b, h,	79,488	10,509	<b>89,997</b>
Intangible assets	a	3,341	599	<b>3,940</b>
Investments in equity-accounted investee		174	-	<b>174</b>
Deferred tax asset	e	2,391	(836)	<b>1,555</b>
<b>TOTAL NON-CURRENT ASSETS</b>		<b>85,394</b>	<b>10,272</b>	<b>95,666</b>
Cash at bank		815	-	<b>815</b>
Trade and other receivables		33,704	-	<b>33,704</b>
Inventories		44,731	-	<b>44,731</b>
Tax receivable		1,728	-	<b>1,728</b>
<b>TOTAL CURRENT ASSETS</b>		<b>80,978</b>	<b>-</b>	<b>80,978</b>
<b>TOTAL ASSETS</b>		<b>\$166,372</b>	<b>\$10,272</b>	<b>\$176,644</b>
<b>EQUITY</b>				
Share capital		12,840	-	<b>12,840</b>
Cash flow hedging reserve	c	-	26	<b>26</b>
Foreign currency translation reserve		(374)	-	<b>(374)</b>
Share rights reserve	d	513	46	<b>559</b>
Retained earnings		52,021	7,814	<b>59,835</b>
<b>TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>		<b>65,000</b>	<b>7,886</b>	<b>72,886</b>
<b>MINORITY INTEREST</b>		<b>1,823</b>	<b>30</b>	<b>1,853</b>
<b>TOTAL EQUITY</b>		<b>66,823</b>	<b>7,916</b>	<b>74,739</b>
<b>LIABILITIES</b>				
Loans and borrowings		65,161	-	<b>65,161</b>
Employee benefits	f	-	2,021	<b>2,021</b>
Deferred income	i	-	208	<b>208</b>
Provisions	g	-	125	<b>125</b>
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>65,161</b>	<b>2,354</b>	<b>67,515</b>
Bank overdraft		342	-	<b>342</b>
Loans and borrowings		2,932	-	<b>2,932</b>
Trade creditors and accruals		26,264	-	<b>26,264</b>
Other payables		4,850	-	<b>4,850</b>
Derivative financial instruments	c	-	2	<b>2</b>
<b>TOTAL CURRENT LIABILITIES</b>		<b>34,388</b>	<b>2</b>	<b>34,390</b>
<b>TOTAL LIABILITIES</b>		<b>99,549</b>	<b>2,356</b>	<b>101,905</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>\$166,372</b>	<b>\$10,272</b>	<b>\$176,644</b>

## 3. Notes to the reconciliations of profit and equity

## a) Intangible assets

Under previous NZ GAAP, goodwill was amortised on a straight-line basis over the period during which the benefits were expected to be received, up to a maximum of 10 years.

Under NZ IFRS, goodwill is no longer required to be amortised, but must instead be tested for impairment. Goodwill is to be allocated to the cash-generating units (CGU) to which it relates and tested for impairment annually. Any loss in value (impairment losses) is then recognised in the income statement as an expense at the time the loss in value is identified.

There were no impairment losses in respect of the previously reported carrying value of goodwill at 1 July 2006 and the goodwill recognised on transition is the same amount as that recorded under previous NZ GAAP at that date. At the same time, the goodwill amortisation recognised for the six months ended 31 December 2006 and the 12 months ended 30 June 2007 of \$278,000 and \$572,000 respectively have also been reversed with consequent increases to the profit before tax for those periods.

The reversal of goodwill previously recognised in the financial statements of equity-accounted investees has had the effect of increasing the Group's share of earnings of equity-accounted investees by \$16,000 and \$27,000 for the six months ended 31 December 2006 and the 12 months ended 30 June 2007 respectively.

## b) Fair value as deemed cost

As permitted by NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*, the Company elected to measure the Group's land and buildings as at 1 July 2006 at their fair value and to use that value as their deemed cost.

This resulted in increases in the previously reported net carrying values of land and buildings at 1 July 2006 of \$7,010,000 and \$4,421,000 respectively.

These assets will not be revalued on an ongoing basis, which will be consistent with the approach taken by the Company prior to the transition to NZ IFRS, which was to carry land and buildings at their original cost.

As a consequence of the new cost base for buildings, the depreciation charge for the six months ended 31 December 2006 and the 12 months ended 30 June 2007 increased by \$12,000 and \$24,000 respectively.

## c) Hedge accounting

In accordance with NZ IAS 39 *Financial Instruments: Recognition and Measurement*, all derivative contracts (more particularly, forward exchange contracts and interest rate swaps) are now recognised at fair value on the balance sheet. Where derivative contracts qualify for cash flow hedge accounting, the effective portion of the fair value movement is then taken to a reserve within equity. All other changes in fair value are recognised immediately in the income statement.

The effect of this change at the various balance sheet dates were as follows:

	Effect on assets/liabilities	Effect on equity	Effect on deferred tax asset
1 July 2006	Increase liabilities by \$1,608,000	Decrease by \$1,082,000	Increase by \$527,000
31 December 2006	Increase assets by \$501,000	Increase by \$330,000	Decrease by \$171,000
30 June 2007	Increase liabilities by \$2,000	Decrease by \$12,000	Decrease by \$10,000

## NOTES TO THE FINANCIAL STATEMENTS

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## d) Share-based payments

Under NZ IFRS, specific guidance regarding the valuation of equity-settled share-based payment schemes such as the rights issued under the Cavalier Corporation Limited 2000 Executive Share Rights Plan is provided. Either the Black-Scholes formula or the Binomial model can be applied to derive the value of the rights issued, with both models requiring the same inputs and producing similar results. As a result, the transition to NZ IFRS has not had a material effect as the Company has already been adopting the former in its valuation of its share rights under its previous NZ GAAP financial statements.

## e) Taxation

Under NZ IFRS, deferred tax is accounted for using the balance sheet approach, rather than the income statement approach previously applied. The balance sheet approach provides for all temporary differences between carrying amount of assets and liabilities for accounting and tax purposes. Deferred tax is recognised in the income statement except to the extent that it relates to items directly in equity or as part of a business combination.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. Any deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The adjustments to deferred tax balances at 1 July 2006 had the effect of decreasing the previously reported debit balance as at that date by \$577,000. \$28,000 relates to the changes consequent upon the transition to NZ IFRS referred to in this Note 13 and \$549,000 relates to adopting the balance sheet approach to deferred tax accounting as at 1 July 2006.

The impact of transition to NZ IFRS on the previous reported tax charge for the six months ended 31 December 2006 is a reduction of \$80,000. The impact of transition to NZ IFRS on the previously reported tax charge for the year ended 30 June 2007 is a reduction of \$156,000, together with a further reduction of \$111,000 being the effect of the impending change in income tax rate on the resulting deferred tax adjustments.

## f) Employee benefits

Under NZ IFRS, non-current employee benefits such as long service leave and retirement benefits must be accrued as they are earned by employees. This is done by determining the amount of future benefit employees have earned in return for their service in the current and prior periods adjusted for the probability of the benefits vesting, discounted at the appropriate rate to reflect the present value of the obligation. This liability was assessed at \$1,735,000 at 1 July 2006. Further accruals of \$143,000 and \$286,000 were made for the six months ended 31 December 2006 and the 12 months ended 30 June 2007 respectively. Previously, the amount would have been recognised as an expense when the long service leave vested and when the retirement benefits were incurred.

## g) Insurance liability

Under previous NZ GAAP, no amount was recorded on the balance sheet to reflect the Company's liability as an insurer under the ACC Partnership Programme.

Under NZ IFRS, the Group has applied NZ IFRS 4 *Insurance Contracts* and has recognised an insurance liability for claims expected to be paid out to employees covered under the programme.

This liability was determined to be \$125,000 at 1 July 2006.

## h) Government grants

On transition to NZ IFRS, government grants received under the Strategic Investment Programme in Australia in relation to plant and equipment have been presented in the balance sheet as a deduction from the carrying amount of the associated plant and equipment. The impact of this has been to reduce the previously reported net carrying value of the associated plant and equipment at 1 July 2006 by \$719,000. These grants are then released to income over the period the associated plant and equipment is depreciated. Previously, government grants were not capitalised, but were recognised in income in the period to which they related.

## i) Lease incentives

Previously, lease incentives under operating leases were not required to be spread over the lease term. Under NZ IFRS, the rent holiday granted at the commencement of the lease of a distribution centre in August 2005 is being spread over the lease term. This had the effect of creating a credit balance in the balance sheet of \$228,000 which is being released to income over the balance of the term of the lease.

## j) Volume rebates and trade discounts

Volume rebates and trade discounts, which were previously treated as payments to customers, are now netted off against revenue.

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## 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, FinstD  
*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

VT 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 FinstD  
*Non-executive, Non-independent*

Member of Remuneration Committee

### COMPANY SECRETARY:

VT S Tan CA, ACIS

### REGISTERED OFFICE:

7 Grayson Avenue, Papatoetoe, P O Box 97-040, Auckland 2240.  
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  
Bank of 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), [www.normanellison.co.nz](http://www.normanellison.co.nz)  
Share Registry – [www.computershare.co.nz](http://www.computershare.co.nz)

## CAVALIER CORPORATION

# A COMPANY IN TOUCH...

...cognisant of its social and environmental responsibilities

...dedicated to best practice, innovation, continuous improvement, product excellence and customer service

### 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

# Cavalier

C O R P O R A T I O N

THE *BREMWORTH*  
COLLECTION



Knightsbridge  
Carpets

Kimberley  
CARPETS



TRAMORE

ONTERA



THE *Georgia*  
COLLECTION