CAVALIER CORPORATION LIMITED

HALF YEAR REPORT
FOR THE SIX MONTHS ENDED
31 DECEMBER 2013

Reinventing ourselves

CAVALIER
CORPORATION

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

EXEMPLAR –
The 42 oz loop pile carpet that features a contemporary dual-coloured mega dot pattern. Exemplar is part of the contract heavy duty ***Cavalier Commercial*** *collection, which focuses on durability and quality and comes in both wool and synthetic fibres.*

COVER: ONTERA'S SOUTHERN LIGHTS AND ULTRA ACCENTS
Project: *Kardinia International College's Katsumata Centre, which was developed as a tribute to renowned educational advocate and founder of the school, Mr Yoshimaro Katsumata. Based in Melbourne, the brief was to create a multiuse facility which symbolises the school's progressive approach to educational delivery and the culture that it embodies.*

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CAVALIER CORPORATION LIMITED AND SUBSIDIARY COMPANIES

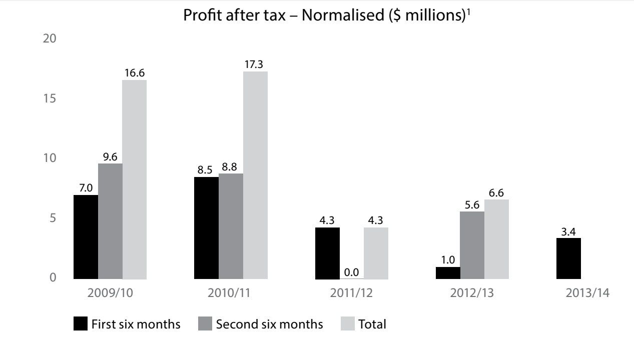
FINANCIAL SUMMARY

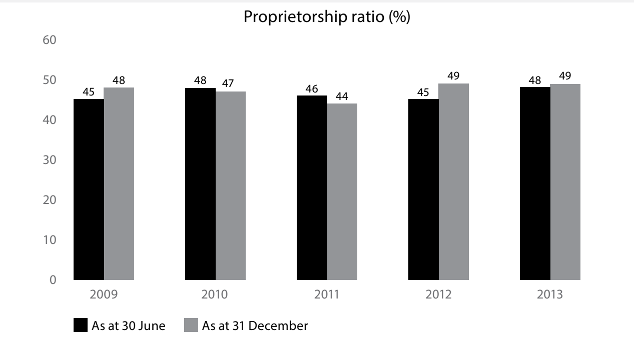
Six months ended 31 December 2013 (Unaudited)

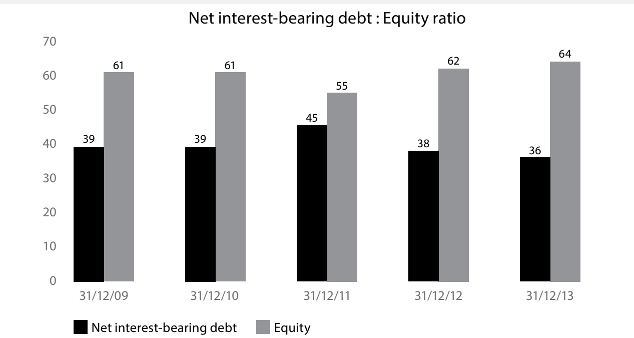
	Unaudited Six months ended 31 Dec 2013 $000	Unaudited Six months ended 31 Dec 2012 $000	Audited Year ended 30 June 2013 $000
Operating revenue	**$101,895**	$100,973	$201,739
Earnings before interest, tax, depreciation and restructuring costs	**8,591**	3,723	12,142
Depreciation	**(3,178)**	(3,227)	(6,328)
Earnings before interest, tax and restructuring costs	**5,413**	496	5,814
Net interest expense	**(1,733)**	(1,940)	(3,740)
Share of profit of equity-accounted investee (net of tax)	**792**	2,116	5,013
Profit before tax (normalised)[1]	**4,472**	672	7,087
Tax (expense)/benefit	**(1,025)**	340	(463)
Profit after tax (normalised)[1]	**3,447**	1,012	6,624
Restructuring costs (after tax)	**–**	427	(3,594)
Profit after tax (reported)	**$3,447**	$1,439	$3,030
Net cash flow from operating activities	**$3,501**	$8,943	$11,676
Basic and diluted earnings per share (normalised) (cents)[1] – based on weighted average number of shares outstanding during the period of 68,347,935 (31 December 2012 – 68,263,857; 30 June 2013 – 68,263,857)	**5.0**	1.5	9.7
Return on average shareholders' equity (normalised) (%)[1]	**3.7%**	1.1%	7.2%
Dividends per share (cents)			
Previous year's final paid during the period	**4.0**	–	–
Current year's interim declared after balance date	**3.0**	–	–

1 Normalised is a non-GAAP (Generally Accepted Accounting Practice) measure that provides what the Directors believe to be a more meaningful view of the underlying financial performance of the Group. A reconciliation between reported and normalised earnings, and between reported and normalised earnings per share, together with further commentary on the disclosure of non-GAAP financial information are set out at page 27 of the half year report.

	Unaudited As at 31 Dec 2013	Unaudited As at 31 Dec 2012	Audited As at 30 June 2013
Net tangible asset backing per share ($)	**$1.26**	$1.24	$1.26
Proprietorship ratio (%)	**49.0%**	48.9%	47.8%
Net interest-bearing debt to equity ratio	**36:64**	38:62	36:64







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DIRECTORS' REPORT

Six months ended 31 December 2013

Your directors present their report, including financial statements, for Cavalier Corporation for the financial period ended six months to 31 December 2013.

FINANCIAL PERFORMANCE

In the six month period to 31 December 2013, the Group produced an unaudited profit after tax (PAT) of $3.4 million on revenue of $102 million, compared with a PAT of $1.4 million on revenue of $101 million the previous year, an increase of 140% and 1% respectively on the preceding comparable period.

Because last year's $1.4 million PAT is inclusive of the release of $427,000 of over-accrued restructuring costs from the previous year, the directors believe that it is more appropriate to compare the current period's PAT against the previous year's normalised PAT, that is excluding the $427,000. On this basis, the $3.4 million PAT is 241% up on the previous year's normalised PAT of $1 million.

New Zealand-based revenue is up 9.7% while Australian revenue is down 6.4% reflecting the relative strength of the two economies over the last year. Australian-based revenue now accounts for 51.9% of total revenue, compared with 56.0% in 2012.

Return on average shareholders' equity for the six months is 3.7% and earnings per share is 5.0 cents, compared with 1.1% and 1.5 cents (normalised) respectively the previous year.

FINANCIAL POSITION

Shareholders' equity of $93.8 million, compared with $92.1 million last year, is an improvement of $1.7 million, but in line with the $93.9 million reported in June 2013. Shareholders' equity accounts for 49.0% of total assets employed, compared with 48.9% a year ago and 47.8% in June 2013.

Total assets stand at $191.3 million, up 1.5% or $2.9 million on the $188.4 million reported in December 2012. Inventories have increased by $4.4 million since last year, reflecting the increased stocks required to support Cavalier's diversification into the Habitat Collection range of synthetic carpets. Property plant and equipment have decreased by $6.9 million since December 2012 mainly as a result of capital expenditure that is 29.8% of depreciation.

Over the last couple of years, there has been a focus on debt reduction, and net debt has fallen $3.9 million from last year and $364,000 from June 2013. Net debt has reduced again despite the resumption of dividend payments in October 2013. Net interest-bearing debt:equity ratio is 36:64, compared with 38:62 a year ago.

CASH FLOWS

Net cash flow from operating activities is $3.5 million for the six months to December 2013, compared with $8.9 million in the six months to December 2012, with the change mainly attributed to the completion of the Group's stock reduction initiative in the previous financial year and increased inventory to support the current synthetic carpet programme.

Since June 2013, net cash outflow from investing activities was $906,000 which mostly reflects the modest capital spend of $947,000 to December 2013. There has been no dividend received from 50% owned Cavalier Wool Holdings (CWH) for the first six months whereas this was $2.0 million last year.

Cash outflow of $4.8 million from financing activities came mostly from the reduction of debt and payment of a shareholder dividend.

SEGMENT REVIEWS

Carpet Business

Our carpet business comprises broadloom carpets and carpet tiles, selling both locally and offshore (mostly Australia).

In the six months to 31 December 2013, our carpet business produced a segment result before restructuring costs of $5.5 million, compared with $1.0 million the previous year – an increase of 443.0%.

The carpet business has shown an improvement from last year, with margins no longer burdened by the high cost of wool in finished goods stock as it was in the first six months of last year. The Habitat Collection, Cavalier Bremworth's synthetic offering introduced in mid-2013, has performed well and sales are encouraging. We expect the collection to further grow as more stock becomes available and new ranges are introduced. The rest of the world, where Cavalier is targeting to grow its premium woollen carpet sales, continues to show promise with new customers in China and increased interest from Continental Europe.

It has been a difficult year for the carpet tile business just as it has been for many Australian manufacturers. This business has struggled with patchy demand and high overhead costs and results are down from last year. However, with the restructuring we have put in place and some exciting new products coming on line, profits should improve in time.

During early 2013, the decision was made to enhance the way we conduct business. This included simplifying an overly-complex product portfolio, having Norman Ellison Carpets (NEC) represent the business in the mid to lower segment of the market and discontinuing the Kimberley and Knightsbridge brands to avoid confusion. This process is almost complete. It resulted in a number of product deletions in the first half which impacted margins negatively as a result of sales of clearance items.

DIRECTORS' REPORT (continued)

At the lower end of the market, Australia is proving to be a challenge and profits are below expectations.

Due to the high value of the New Zealand dollar against the Australian equivalent, the translation of un-hedged Australian profits into New Zealand dollars has adversely impacted results which will continue should exchange rates remain at current levels.

In December 2013, the consolidation of the NEC tufting plant was completed and all carpet will now be made at the Cavalier Papatoetoe site in Auckland. We expect increased efficiencies from a consolidated manufacturing operation to accrue later in the financial year.

Wool Business

The wool business comprises our wool buying business, Elco Direct, and a 50% interest in the commission wool scourer, CWH.

Elco Direct's revenue of $17.6 million is up 26.6% on the $13.9 million reported in the prior year. The segment result has also improved by $205,000 or 58.1% on the $353,000 reported last year.

The result from our wool buying business is pleasing given the difficult trading conditions brought on by a lack of wool in the market caused by the early-season drought and the spike in wool prices towards the end of 2013. Due to the uncertainties in the market place and the appreciation in wool price, Cavalier purchased more of its requirements through Elco Direct in the latter part of the calendar year.

Cavalier's share of the tax-paid earnings of CWH for the six months to 31 December 2013 is $792,000, compared with $2.1 million a year ago.

Last year was a record for CWH. However, the result from this year is substantially down, caused mainly by a significant drop in wool grease price. The drop in wool grease price can be attributed to a disease affecting shrimp farms, particularly in Asia. Wool grease is the major raw ingredient used in the manufacture of cholesterol which is extensively consumed in shrimp farming. At this stage, the disease is expected to be short-lived and manageable. However, it has impacted the price of wool grease and will continue to do so until shrimp production increases. We are watching developments closely. In addition to the drop in wool grease price, there has been a reduction in the volume of wool available for scouring, partly caused by the early season drought where more stock was sent to the works than anticipated.

As highlighted in earlier Directors' reports, Cavalier has indicated that further rationalisation of the scouring industry should be carefully considered and that there could be benefits to both suppliers and CWH should further consolidation take place. If an opportunity for rationalisation arises within acceptable parameters, the Board is confident that it would be in the best interests of the company. The directors will continue to inform shareholders of any developments should they arise.

Yarn Business

The Radford Yarn Technologies (RYT) operation is a supplier of premium felted woollen yarns to the Cavalier Bremworth broadloom carpet operation and to up-market broadloom carpet and rug manufacturers in North America and Europe.

RYT has had an excellent start to the year with profits exceeding last year and expectations for the first six months. In 2012, the operation underperformed with low volumes through the factory caused by a lack of demand. This year, RYT's volume has increased alongside Cavalier's new high-end product lines that incorporate felted yarns. There is also increased interest from offshore customers for felted wool products and yarns, so we expect the strong results to continue for the remainder of the year.

EARNINGS OUTLOOK

The results for the first six months are an improvement from last year, but still down on expectations.

While there are encouraging signs in many aspects of the business, and in particular, the broadloom carpet business in New Zealand, sales of mid to low end broadloom product in Australia are expected to remain static, and with the current strength of the New Zealand dollar, the translation of Australian profits will impact returns on unhedged receipts.

The carpet tile business has had a slow start to the year and we anticipate this will continue into the second half of the financial year. The recent restructuring of this business is not expected to provide additional benefits until much later in the year and into 2015.

We expect profits from the wool scouring business to be significantly down from last year due to reduced wool grease price and lower-than-expected volumes through the plant.

Taking the above factors into account, we are revising our earnings outlook for the year to 30 June 2014 from the $8 to $10 million tax-paid range signalled at the Annual Meeting of shareholders in November to $6 to $9 million tax-paid.

We will update shareholders should there be any changes to this earnings outlook.

DIRECTORS' REPORT (continued)

DIVIDENDS

Your directors have authorised a fully imputed interim dividend for the year ending 30 June 2014 of 3 cents per share.

This interim dividend will be paid on Friday, 28 March 2014. The share register will close at 5 p.m. on Friday, 14 March 2014 for the purpose of determining entitlement to the dividend and will reopen on Monday, 17 March 2014.

Non-resident shareholders will also receive, together with their 2014 interim dividend, a supplementary dividend of 0.5294 cent per share. The dates for the determination of entitlement to, and the payment of, this supplementary dividend are the same as those for the 2014 interim dividend.

The Cavalier Corporation Limited Dividend Reinvestment Plan which allows shareholders to receive shares in the Company in lieu of dividends will apply to the interim dividend.

The directors advise that the price for determining the number of shares to be issued in lieu of this dividend will be the volume weighted average sale price of all price-setting trades on the NZX over the five trading days from Monday, 17 March to Friday, 21 March 2014 without any discount.

DIRECTORS

Your directors take this opportunity to thank Keith Thorpe, who retired as a director of the Company in December after having served on the Board since February 2004, for his contribution over the years and to wish him all the best for the future.

At the same time, the directors welcome Graeme Edmond, who took up his role as an independent non-executive director with effect from 1 February 2014, to the Board. The directors look forward to introducing Graeme to shareholders at the next Annual Meeting in November.

A M James
Chairman

C A McKenzie
Managing Director

28 February 2014

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AUDITORS' REVIEW REPORT

KPMG

TO THE SHAREHOLDERS OF CAVALIER CORPORATION LIMITED

We have completed a review of the interim financial statements on pages 10 to 26 in accordance with the Review Engagement Standard RS-1 issued by the External Reporting Board. The financial statements provide information about the past financial performance of Cavalier Corporation Limited and its subsidiaries ("the Group") and its financial position as at 31 December 2013.

DIRECTORS' RESPONSIBILITIES

The Directors of Cavalier Corporation Limited and its subsidiaries are responsible for the preparation of interim financial statements which give a true and fair view of the financial position of the Group as at 31 December 2013 and the results of its operations and cash flows for the period ended on that date.

REVIEWERS' RESPONSIBILITIES

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

BASIS OF OPINION

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

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

REVIEW OPINION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements on pages 10 to 26 do not give a true and fair view of the financial position of the Group as at 31 December 2013 and the results of its operations and cash flows for the period ended on that date in accordance with NZ IAS 34 Interim Financial Reporting.

Our review was completed on 28 February 2014 and our opinion is expressed as at that date.

KPMG

Auckland

CONDENSED CONSOLIDATED INCOME STATEMENT

Six months ended 31 December 2013 (Unaudited)

	Notes	Unaudited Six months ended 31 Dec 2013 $000	Unaudited Six months ended 31 Dec 2012 $000	Audited Year ended 30 June 2013 $000
Revenue	3	**101,895**	100,973	201,739
Cost of sales		**(73,106)**	(76,492)	(150,108)
Gross profit		**28,789**	24,481	51,631
Other income and gains/losses	4	**38**	14	16
Distribution expenses		**(16,880)**	(17,530)	(33,827)
Administration expenses		**(6,534)**	(6,469)	(12,298)
Restructuring costs	5	**–**	593	(4,991)
Reversal of impairment of trademark		**–**	–	292
Results from operating activities		**5,413**	1,089	823
Net finance costs		**(1,733)**	(1,940)	(3,740)
Share of profit of equity-accounted investee (net of tax)		**792**	2,116	5,013
Profit before tax	6	**4,472**	1,265	2,096
Tax (expense)/benefit		**(1,025)**	174	934
Profit after tax for the period		**$3,447**	$1,439	$3,030
Profit after tax attributable to:				
Shareholders of Cavalier Corporation Limited		**3,447**	1,439	3,030
Non-controlling interests		**–**	–	–
Profit after tax for the period		**$3,447**	$1,439	$3,030
Basic and diluted earnings per share (cents)		**5.0**	2.1	4.4
Weighted average number of shares outstanding during the period (000s)		**68,347.9**	68,263.9	68,263.9

This statement is to be read in conjunction with the Notes on pages 17 to 26 and the previous year's annual financial statements

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 31 December 2013 (Unaudited)

	Notes	Unaudited Six months ended 31 Dec 2013 $000	Unaudited Six months ended 31 Dec 2012 $000	Audited Year ended 30 June 2013 $000
Profit after tax for the period		**3,447**	1,439	3,030
Other comprehensive income that may be reclassified subsequently to profit or loss				
Effective portion of changes in fair value of cash flow hedges		**1,927**	(221)	2,364
Net change in fair value of cash flow hedges transferred to profit or loss		**(331)**	(32)	(32)
Foreign currency translation differences for foreign operations		**(2,436)**	(361)	(1,985)
Tax on other comprehensive income		**(447)**	70	(653)
		(1,287)	(544)	(306)
Other comprehensive income not reclassified subsequently to profit or loss				
Changes in amounts payable to non-controlling interests	9	**52**	320	320
Other comprehensive income for the period, net of tax		**(1,235)**	(224)	14
Total comprehensive income for the period		**$2,212**	$1,215	$3,044
Total comprehensive income attributable to:				
Shareholders of Cavalier Corporation Limited		**2,212**	1,215	3,044
Non-controlling interests		**–**	–	–
Total comprehensive income for the period		**$2,212**	$1,215	$3,044

This statement is to be read in conjunction with the Notes on pages 17 to 26 and the previous year's annual financial statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 31 December 2013 (Unaudited)

	Share Capital $000	Cash Flow Hedging Reserve $000	Foreign Currency Translation Reserve $000	Share Rights Reserve $000	Retained Earnings $000	Total Equity $000
Total equity at beginning of the period	**$21,157**	**$994**	**$369**	**$1,448**	**$69,950**	**$93,918**
Total comprehensive income for the period						
Profit after tax	–	–	–	–	3,447	3,447
Other comprehensive income that may be reclassified subsequently to profit or loss						
Effective portion of changes in fair value of cash flow hedges (net of tax)	–	1,149	–	–	–	1,149
Foreign currency translation differences for foreign operations	–	–	(2,436)	–	–	(2,436)
	–	1,149	(2,436)	–	–	(1,287)
Other comprehensive income not reclassified subsequently to profit or loss						
Changes in amounts payable to non-controlling interests	–	–	–	–	52	52
Total other comprehensive income	–	1,149	(2,436)	–	52	(1,235)
Total comprehensive income for the period	–	1,149	(2,436)	–	3,499	2,212
Transactions with owners, recorded directly in equity						
Dividends paid to equity holders of the Company	–	–	–	–	(2,731)	(2,731)
Shares issued	361	–	–	–	–	361
Equity-settled share-based payments	–	–	–	–	–	–
Total equity at end of the period	**$21,518**	**$2,143**	**$(2,067)**	**$1,448**	**$70,718**	**$93,760**

This statement is to be read in conjunction with the Notes on pages 17 to 26 and the previous year's annual financial statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Six months ended 31 December 2012 (Unaudited)

	Share Capital $000	Cash Flow Hedging Reserve $000	Foreign Currency Translation Reserve $000	Share Rights Reserve $000	Retained Earnings $000	Total Equity $000
Total equity at beginning of the period	$21,157	$(685)	$2,354	$1,429	$66,600	$90,855
Total comprehensive income for the period						
Profit after tax	–	–	–	–	1,439	1,439
Other comprehensive income that may be reclassified subsequently to profit or loss						
Effective portion of changes in fair value of cash flow hedges (net of tax)	–	(183)	–	–	–	(183)
Foreign currency translation differences for foreign operations	–	–	(361)	–	–	(361)
	–	(183)	(361)	–	–	(544)
Other comprehensive income not reclassified subsequently to profit or loss						
Changes in amounts payable to non-controlling interests	–	–	–	–	320	320
Total other comprehensive income	–	(183)	(361)	–	320	(224)
Total comprehensive income for the period	–	(183)	(361)	–	1,759	1,215
Transactions with owners, recorded directly in equity						
Dividends paid to equity holders of the Company	–	–	–	–	–	–
Equity-settled share-based payments	–	–	–	20	–	20
Total equity at end of the period	$21,157	$(868)	$1,993	$1,449	$68,359	$92,090

This statement is to be read in conjunction with the Notes on pages 17 to 26 and the previous year's annual financial statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 30 June 2013 (Audited)

	Share Capital $000	Cash Flow Hedging Reserve $000	Foreign Currency Translation Reserve $000	Share Rights Reserve $000	Retained Earnings $000	Total Equity $000
Total equity at beginning of the period	$21,157	$(685)	$2,354	$1,429	$66,600	$90,855
Total comprehensive income for the period						
Profit after tax	–	–	–	–	3,030	3,030
Other comprehensive income that may be reclassified subsequently to profit or loss						
Effective portion of changes in fair value of cash flow hedges (net of tax)	–	1,679	–	–	–	1,679
Foreign currency translation differences for foreign operations	–	–	(1,985)	–	–	(1,985)
	–	1,679	(1,985)	–	–	(306)
Other comprehensive income not reclassified subsequently to profit or loss						
Changes in amounts payable to non-controlling interests	–	–	–	–	320	320
Total other comprehensive income	–	1,679	(1,985)	–	320	14
Total comprehensive income for the period	–	1,679	(1,985)	–	3,350	3,044
Transactions with owners, recorded directly in equity						
Dividends paid to equity holders of the Company	–	–	–	–	–	–
Equity-settled share-based payments	–	–	–	19	–	19
Total equity at end of the period	$21,157	$994	$369	$1,448	$69,950	$93,918

This statement is to be read in conjunction with the Notes on pages 17 to 26 and the previous year's annual financial statements

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013 (Unaudited)

	Notes	Unaudited 31 Dec 2013 $000	Unaudited 31 Dec 2012 $000	Audited 30 June 2013 $000
ASSETS				
Property, plant and equipment		**65,317**	72,196	68,932
Intangible assets		**7,794**	7,502	7,794
Investment in equity-accounted investee		**24,648**	22,709	23,856
Deferred tax asset		**2,256**	2,625	2,797
Total non-current assets		**100,015**	105,032	103,379
Cash and cash equivalents		**3,295**	2,907	5,932
Trade receivables, other receivables and prepayments		**25,659**	25,356	27,650
Inventories		**58,605**	54,255	56,965
Derivative financial instruments		**3,749**	104	2,518
Tax receivable		**–**	726	193
Total current assets		**91,308**	83,348	93,258
Total assets		**$191,323**	$188,380	$196,637
EQUITY				
Share capital		**21,518**	21,157	21,157
Cash flow hedging reserve		**2,143**	(868)	994
Foreign currency translation reserve		**(2,067)**	1,993	369
Share rights reserve		**1,448**	1,449	1,448
Retained earnings		**70,718**	68,359	69,950
Total equity attributable to equity holders of the Company		**93,760**	92,090	93,918
LIABILITIES				
Loans and borrowings	8	**56,084**	59,169	58,896
Employee benefits		**2,325**	2,764	2,444
Deferred income		**252**	329	291
Provisions		**4,003**	914	4,226
Total non-current liabilities		**62,664**	63,176	65,857
Bank overdraft	8	**50**	444	234
Loans and borrowings	12	**81**	94	86
Trade creditors and accruals		**25,756**	23,026	26,281
Provisions		**3,075**	2,690	3,416
Employee entitlements		**4,700**	5,281	6,090
Amount payable to non-controlling interests		**145**	210	210
Deferred income		**67**	69	68
Derivative financial instruments		**20**	1,300	477
Tax payable		**1,005**	–	–
Total current liabilities		**34,899**	33,114	36,862
Total liabilities		**97,563**	96,290	102,719
Total equity and liabilities		**$191,323**	$188,380	$196,637

This statement is to be read in conjunction with the Notes on pages 17 to 26 and the previous year's annual financial statements

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 31 December 2013 (Unaudited)

	Notes	**Unaudited Six months ended 31 Dec 2013 $000**	Unaudited Six months ended 31 Dec 2012 $000	Audited Year ended 30 June 2013 $000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers		**104,001**	105,133	204,126
Cash paid to suppliers and employees		**(98,036)**	(93,958)	(188,525)
		5,965	11,175	15,601
Dividends received		**3**	3	3
Other receipts		**11**	11	22
GST paid		**(610)**	628	384
Interest paid		**(2,026)**	(1,839)	(3,575)
Income tax refunded/(paid)		**158**	(1,035)	(759)
Net cash flow from operating activities	7	**3,501**	8,943	11,676
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of property, plant and equipment		**54**	39	123
Acquisition of property, plant and equipment		**(947)**	(674)	(1,907)
Purchase consideration of non-controlling interests	9	**(13)**	(530)	(530)
Dividends received from equity-accounted investee		**–**	2,000	3,750
Net cash flow from investing activities		**(906)**	835	1,436
CASH FLOWS FROM FINANCING ACTIVITIES				
Shares issued		**361**	–	–
Increase/(Decrease) in other loans and borrowings		**(5)**	1	(7)
Decrease in bank loans and borrowings		**(2,440)**	(9,263)	(9,262)
Dividends paid to equity holders of the Company		**(2,731)**	–	–
Net cash flow from financing activities		**(4,815)**	(9,262)	(9,269)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(2,220)**	516	3,843
Cash and cash equivalents at beginning of the period		**5,698**	1,950	1,950
Effect of exchange rate changes on cash		**(233)**	(3)	(95)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		**$3,245**	$2,463	$5,698

This statement is to be read in conjunction with the Notes on pages 17 to 26 and the previous year's annual financial statements

NOTES TO THE FINANCIAL STATEMENTS

Six months ended 31 December 2013

1. GENERAL

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

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

The principal activities of the Company and its subsidiaries ("Group") comprise the Cavalier Bremworth and Norman Ellison broadloom carpet businesses, the Ontera Modular carpet tile operation, the Elco Direct wool procurement business and the Radford Yarn Technologies operation.

All subsidiaries in the Group are wholly-owned except for the Ontera Modular Carpets Proprietary Limited group of companies ("Ontera") which is 97% owned (31 December 2012 and 30 June 2013 96.75%).

Because of the need to recognise put options granted to the non-controlling interests in respect of their shareholding in Ontera as financial liabilities in the Statement of Financial Position, the shareholding of the non-controlling interests has been similarly derecognised in the financial statements and their interests accounted for as if the Group owned a 100% of Ontera.

Cavalier also has a 50% interest in the Cavalier Wool Holdings Limited group of companies ("CWH"). CWH is involved in commission wool scouring.

The Company is listed on the New Zealand Exchange 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 28 February 2014.

These interim financial statements are presented in New Zealand dollars ($), which is the Company's functional currency. Unless otherwise indicated, all financial information presented in New Zealand dollars has been rounded to the nearest thousand.

The interim financial statements are condensed financial statements that have been prepared in accordance with NZ IAS 34 Interim Financial Reporting. The disclosures normally required by other standards within New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) to be included in a complete set of annual financial statements are not required to be incorporated into a condensed set of interim financial statements prepared under NZ IAS 34. As a consequence, the interim financial statements do not comply with NZ IFRS.

The interim financial statements, and the comparative information for the six months ended 31 December 2012, are unaudited. The comparative information for the year ended 30 June 2013 is audited.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim financial statements are the same as those adopted in the preparation of the annual financial statements for the year ended 30 June 2013. The interim financial statements should therefore be read in conjunction with those annual financial statements and the accounting policies set out therein.

	Six months ended 31 Dec 2013 $000	Six months ended 31 Dec 2012 $000	Year ended 30 June 2013 $000
3. REVENUE			
Sales of goods	**100,663**	100,973	201,739
Provision of installation services	**1,232**	–	–
Total revenue	**$101,895**	$100,973	$201,739
4. OTHER INCOME AND GAINS/LOSSES			
Dividends received	**3**	3	3
Rentals received	**11**	11	22
Net gain/(loss) on disposal of property, plant and equipment	**24**	–	(9)
Total other income and gains/losses	**$38**	$14	$16
5. RESTRUCTURING COSTS			
Employee termination benefits, employee support costs, costs to relocate plant and equipment and contract termination costs as a consequence of various business improvement plans initiated in response to deterioration in trading conditions	**–**	207	6,090
Reversal of provisions previously recognised	**–**	(800)	(1,099)
	$–	$(593)	$4,991
6. EXPENSES			
Profit before tax includes the following:			
Depreciation	**$3,178**	$3,227	$6,328
Operating lease and rental costs	**$3,469**	$3,380	$6,738

	Six months ended 31 Dec 2013 $000	Six months ended 31 Dec 2012 $000	Year ended 30 June 2013 $000
7. CASH FLOW RECONCILIATION			
Profit after tax for the period	**3,447**	1,439	3,030
Add/(Deduct) non-cash and other items:			
Equity-settled share-based transactions	**–**	20	19
Depreciation	**3,178**	3,227	6,328
Reversal of impairment of trademark	**–**	–	(292)
Impairment of plant and equipment	**–**	–	572
Share of profit of equity-accounted investee	**(792)**	(2,116)	(5,013)
Deferred government grants	**(161)**	–	(351)
Deferred tax asset	**(29)**	(576)	(1,569)
Employee benefits	**(119)**	(229)	(535)
Deferred income	**(40)**	(36)	(75)
Provisions	**(564)**	(3,354)	630
Net (gain)/loss on sale of property, plant and equipment	**(24)**	–	9
Net (gain)/loss on foreign currency balance	**90**	(7)	61
Changes in working capital items:			
Trade and other receivables and prepayments	**1,321**	3,689	912
Inventories	**(2,404)**	8,538	5,248
Tax payable	**1,212**	(621)	(83)
Trade creditors and accruals	**(1,597)**	(1,027)	3,440
Derivative financial instruments	**(17)**	(4)	(655)
Net cash flow from operating activities	**$3,501**	$8,943	$11,676

8. LOANS AND BORROWINGS AND ASSETS PLEDGED AS SECURITY

The Group's funding facilities, which are provided by Bank of New Zealand and National Australia Bank Limited (together "the Bank"), were amended and extended during the period. These facilities, excluding overdraft facilities repayable on demand, now fall due for further review as follows:

	$000
Facilities (excluding overdraft)	$76,526
Due for review as follows:	
After 1 year but within 2 years	$56,526
After 2 years but within 3 years	$20,000

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. LOANS AND BORROWINGS AND ASSETS PLEDGED AS SECURITY (continued)

Some of the companies in the Group have granted in favour of Bank of New Zealand, as security agent for the Bank, a first-ranking composite general security deed and cross guarantee securing all obligations of the Group to the Bank, including obligations for the payment and repayment of moneys due, owing or payable by the Group to the Bank.

The property-owning companies in the Group have also granted in favour of Bank of New Zealand first-ranking mortgages in respect of land and buildings securing all obligations of the Group to the Bank, including obligations for the payment and repayment of moneys due, owing or payable by the Group to the Bank.

9. ONTERA MODULAR CARPETS PTY LIMITED

The Company acquired 5,000 shares in Ontera Modular Carpets Pty Limited ("Ontera"), which is equivalent to 0.25% of the shares on issue, during the period ended 31 December 2013 for $12,500.

Pursuant to NZ IAS 32 *Financial Instruments: Disclosure and Presentation*, the Group has been recognising the put options granted to the non-controlling interests of Ontera in respect of their shareholding as financial liabilities, effectively treating these put options as if they had already been exercised and accounting for Ontera in the consolidated financial statements as if it was 100% owned. As a consequence, this acquisition of Ontera will not affect the way it has previously been accounted for.

The amount payable to the non-controlling interests of Ontera was reduced by $51,800 during the period ended 31 December 2013 to reflect the current value of their shares with a corresponding amount recognised in the Statement of Comprehensive Income.

	As at 31 Dec 2013 $000	As at 31 Dec 2012 $000	As at 30 June 2013 $000
10. CAPITAL EXPENDITURE COMMITMENTS			
Capital expenditure commitments	**$–**	$626	$60
11. CONTINGENT LIABILITIES			
Bank guarantees in respect of operating leases and other commitments	**$1,477**	$1,544	$1,496

12. RELATED PARTY TRANSACTIONS

	As at 31 Dec 2013 $000	As at 31 Dec 2012 $000	As at 30 June 2013 $000
Substantial security holders			
Loans and borrowings disclosed under current liabilities in the Statement of Financial Position comprise borrowings from the following related parties:			
Chippendale Holdings Limited	**6**	14	9
Rural Aviation (1963) Limited	**75**	80	77
Total	**$81**	$94	$86
Interest rate	**3.45%**	3.45%	3.45%

These borrowings are unsecured and are repayable on demand. The interest rate of 3.45% at each balance date can be compared with a commercial interest rate of 4.60% for borrowings of a similar tenure from the Group's bankers at each of those dates. Chippendale Holdings Limited and Rural Aviation (1963) Limited are substantial security holders in the Company.

Equity-accounted investee

CWH, the Group's 50% owned equity-accounted investee, provides the Group's broadloom carpet operations with wool scouring services, whether directly or through wool exporters from whom the Group purchases most of its wool.

The value of services contracted directly with CWH during the six months ended 31 December 2013 was $387,000 (six months ended 31 December 2012 $212,000; 12 months ended 30 June 2013 $559,000).

The Group no longer provides CWH with management services. As a result, no management fees were charged during the six months ended 31 December 2013 (six months ended 31 December 2012 $36,000; 12 months ended 30 June 2013 $72,000).

No dividends were received from CWH during the six months ended 31 December 2013 (six months ended 31 December 2012 $2,000,000; 12 months ended 30 June 2013 $3,750,000).

13. SEGMENT REPORTING

The Group's reportable segments are:

- carpets, which involves the manufacturing and sales of carpets by the Cavalier Bremworth and Norman Ellison broadloom carpet businesses and the Ontera Modular carpet tile operation;
- wool acquisition, through Elco Direct; and
- other, being segments that fall below the quantitative thresholds that require separate disclosure.

The Group has determined pursuant to NZ IFRS 8 Operating Segments that the Cavalier Bremworth and Norman Ellison broadloom carpet businesses, the Ontera Modular carpet tile operation, the Radford Yarn operation and the Elco Direct wool acquisition unit are the Group's operating segments.

In determining its reportable segments, the Group considered the criteria set out in paragraph 12 of NZ IFRS 8 and was able to aggregate the Cavalier Bremworth, Norman Ellison and Ontera Modular operating segments into a single reportable segment.

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. SEGMENT REPORTING (continued)

The Radford Yarn operation fell below the quantitative thresholds set out in NZ IFRS 8 and is disclosed in "other".

	CARPETS	
Unaudited	**Six months ended 31 Dec 2013 $000**	Six months ended 31 Dec 2012 $000
External revenue	**87,049**	87,991
Inter-segment revenue	**–**	–
Total revenue	**$87,049**	$87,991
Elimination of inter-segment revenue		
Consolidated revenue		
Segment result before depreciation and restructuring costs	**8,454**	4,042
Depreciation	**(2,981)**	(3,034)
Segment result before restructuring costs	**5,473**	1,008
Restructuring costs	**–**	593
Segment result after restructuring costs	**5,473**	1,601
Elimination of inter-segment profits		
Unallocated corporate costs		
Results from operating activities		
Net finance costs		
Share of profit of equity-accounted investee (net of tax)		
Profit before tax		
Tax (expense)/benefit		
Profit after tax for the period		
Reportable segment assets	**154,110**	154,833
Investment in equity-accounted investee		
Total assets		
Capital expenditure	**789**	638
Reportable segment liabilities	**36,635**	34,051
Unallocated liabilities		
Total liabilities		
Employee numbers		
Operations	**655**	649
Unallocated		
Total		

WOOL ACQUISITION		OTHER		TOTAL	
Six months ended 31 Dec 2013 $000	Six months ended 31 Dec 2012 $000	**Six months ended 31 Dec 2013 $000**	Six months ended 31 Dec 2012 $000	**Six months ended 31 Dec 2013 $000**	Six months ended 31 Dec 2012 $000
13,016	11,580	**1,830**	1,402	**101,895**	100,973
4,548	2,295	**2,376**	993	**6,924**	3,288
$17,564	$13,875	**$4,206**	$2,395	**108,819**	104,261
				(6,924)	(3,288)
				$101,895	$100,973
614	404	**664**	42	**9,732**	4,488
(56)	(51)	**(141)**	(142)	**(3,178)**	(3,227)
558	353	**523**	(100)	**6,554**	1,261
–	–	**–**	–	**–**	593
558	353	**523**	(100)	**6,554**	1,854
				(161)	85
				(980)	(850)
				5,413	1,089
				(1,733)	(1,940)
				792	2,116
				4,472	1,265
				(1,025)	174
				$3,447	$1,439
5,326	3,501	**7,239**	7,337	**166,675**	165,671
				24,648	22,709
				$191,323	$188,380
158	36	**–**	–	**$947**	$674
3,752	2,349	**1,011**	627	**41,398**	37,027
				56,165	59,263
				$97,563	$96,290
33	29	**29**	24	**717**	702
				4	4
				721	706

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. SEGMENT REPORTING (continued)

Audited	CARPETS Year ended 30 June 2013 $000	WOOL ACQUISITION Year ended 30 June 2013 $000	OTHER Year ended 30 June 2013 $000	TOTAL Year ended 30 June 2013 $000
External revenue	168,963	29,783	2,993	201,739
Inter-segment revenue	–	4,903	2,598	7,501
Total revenue	$168,963	$34,686	$5,591	209,240
Elimination of inter-segment revenue				(7,501)
Consolidated revenue				$201,739
Segment result before depreciation and restructuring costs	12,352	1,532	146	14,030
Depreciation	(5,944)	(102)	(282)	(6,328)
Segment result before restructuring costs	6,408	1,430	(136)	7,702
Restructuring costs	(4,991)	–	–	(4,991)
Segment result after restructuring costs	1,417	1,430	(136)	2,711
Elimination of inter-segment profits				(162)
Unallocated corporate costs				(1,726)
Results from operating activities				823
Net finance costs				(3,740)
Share of profit of equity-accounted investee (net of tax)				5,013
Profit before tax				2,096
Tax benefit				934
Profit after tax for the period				$3,030
Reportable segment assets	162,924	2,371	7,486	172,781
Investment in equity-accounted investee				23,856
Total assets				$196,637
Capital expenditure	1,871	36	–	$1,907
Reportable segment liabilities	40,361	2,134	1,242	43,737
Unallocated liabilities				58,982
Total liabilities				$102,719
Employee numbers				
Operations	678	34	29	741
Unallocated				4
Total				745

13. SEGMENT REPORTING (continued)

Inter-segment transactions

All inter-segmental sales are at market prices. Inter-segmental sales during the period and intercompany profits on stocks at balance date are eliminated on consolidation.

Information about geographical areas

In presenting information on the basis of geographical areas, revenue is based on the geographical location of customers and non-current assets are based on the geographical location of those assets.

	Six months ended 31 Dec 2013 $000	Six months ended 31 Dec 2012 $000	Year ended 30 June 2013 $000
Revenue			
New Zealand	**45,422**	41,422	85,696
Australia	**52,910**	56,536	110,275
Rest of the world	**3,563**	3,015	5,768
	$101,895	$100,973	$201,739

	As at 31 Dec 2013 $000	As at 31 Dec 2012 $000	As at 30 June 2013 $000
Non-current assets			
New Zealand	**79,979**	81,095	81,011
Australia	**20,036**	23,937	22,368
	$100,015	$105,032	$103,379

Information about major customers

None of the Group's customers are major customers as defined in NZ IFRS 8. Major customers are those external customers where revenues from transactions with the Group are equal to, or exceed, 10% of the Group's total revenues.

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. EVENTS AFTER BALANCE DATE

Dividends

The Directors declared on 28 February 2014 an interim dividend for the year ending 30 June 2014 of 3 cents per share fully imputed in respect of the 68,470,128 shares on issue, giving a total interim dividend of $2,054,104.

15. NEW STANDARDS

NZ IFRS 10 *Consolidated Financial Statements* and NZ IFRS 11 *Joint Arrangements* (effective 1 January 2013)

Under NZ IFRS 11, joint ventures are required to be recognised as an investment and accounted for using the equity method, while joint arrangements are required to be proportionately consolidated. The Group has determined that its 50% interest in CWH meets the criteria of a joint venture under NZ IFRS 11 and therefore these standards do not affect the way the Group has been recognising, and accounting for, its interest in CWH.

DISCLOSURE OF NON-GAAP FINANCIAL INFORMATION

Six months ended 31 December 2013

The half year report for the six months ended 31 December 2013 contains financial information that is non-GAAP (Generally Accepted Accounting Practice) and therefore falls within the Financial Markets Authority's guidance note on "Disclosing non-GAAP financial information" issued in September 2012.

Non-GAAP financial information has been prepared using, in the case of the half year the unaudited and in the case of the full year the audited, GAAP-compliant financial statements of the Group.

Non-GAAP financial information contained within the half year report (more particularly, the non-GAAP measures of financial performance such as "*Profit before tax (normalised)*" and "*Profit after tax (normalised)*" as well as the various financial ratios that are based on normalised results – for example, earnings per share) provide useful information to investors regarding the performance of the Group because the calculations exclude significant restructuring costs that are not expected to occur regularly even though they may span more than one accounting period.

In arriving at this view, the Directors have also taken cognisance of the regular requests by users of the Group financial statements, including analysts and shareholders, regarding the nature and quantum of significant items within the GAAP-compliant results and the way analysts distinguish between GAAP and non-GAAP measures of profit.

The disclosure of the non-GAAP financial information is also consistent with how the financial information for the Group is reported internally, and reviewed by the Managing Director as its chief operating decision maker, and provides what the Directors and management believe gives a more meaningful insight into the underlying financial performance of the Group and a better understanding of how the Group is tracking after taking into account these significant items.

The Directors also note that because these items may include non-cash provisions or provisions that are uncertain both as to quantum and timing of cash flows, it would usually be more appropriate to be using alternative, yet consistent, non-GAAP measures of profit when determining dividends.

DISCLOSURE OF NON-GAAP FINANCIAL INFORMATION (continued)

In putting together the half year report, the Directors have taken into account all of the requirements within the guidance note. More specifically, these include:

- outlining why non-GAAP financial information is useful;
- ensuring that:
  - no undue prominence, emphasis or authority is given to any non-GAAP financial information;
  - non-GAAP financial information is appropriately labelled;
  - the calculation of non-GAAP financial information is clearly explained; and
  - a reconciliation between non-GAAP and GAAP financial information is provided (see below);
- applying a consistent approach from period to period and ensuring that comparatives are similarly adjusted for consistency;
- ensuring that non-GAAP financial information is unbiased and taking care when describing, or referring to, items as 'one-off' or 'non-recurring'; and
- identifying the source of non-GAAP financial information

Reconciliation of financial performance

	GAAP-compliant reported profit after tax	Reverse restructuring costs (net of tax)	Normalised profit after tax
Six months ended 31 December 2013			
Profit attributable to shareholders	**$3,447,000**	**–**	**$3,447,000**
Weighted average number of ordinary shares	**68,347,935**		**68,347,935**
Earnings per share, basic and diluted	**5.0 cents**		**5.0 cents**
Six months ended 31 December 2012			
Profit attributable to shareholders	$1,439,000	($427,000)	$1,012,000
Weighted average number of ordinary shares	68,263,857		68,263,857
Earnings per share, basic and diluted	2.1 cents		1.5 cents
Year ended 30 June 2013			
Profit attributable to shareholders	$3,030,000	$3,594,000	$6,624,000
Weighted average number of ordinary shares	68,263,857		68,263,857
Earnings per share, basic and diluted	4.4 cents		9.7 cents

CORPORATE DIRECTORY

BOARD OF DIRECTORS:

G C W Biel B.E. (Mech.) *Non-executive, Non-independent*	Deputy Chairman of the Board Member of Audit Committee Member of Remuneration Committee
G D Edmond BCA *Non-executive, Independent*	Member of Audit Committee Member of Remuneration Committee
G S Hawkins B.Sc., B.Com., ACA, DistFInstD *Non-executive, Independent*	Chairman of Audit Committee Member of Remuneration Committee
S E F Haydon B.Sc., ACA *Non-executive, Independent*	Member of Audit Committee Member of Remuneration Committee
A M James B.Tech. (Hons.), Dip.Bus.Admin. *Non-executive, Independent*	Chairman of the Board Member of Audit Committee Chairman of Remuneration Committee
C A McKenzie Dip.Wool&WoolTech., MInstD	Managing Director and Chief Executive Officer

CHIEF FINANCIAL OFFICER:

P J Alston BBS, CA

COMPANY SECRETARY:

V T S Tan CA, FCIS

FOUNDING SHAREHOLDER:

The late **A C Timpson** ONZM

REGISTERED OFFICE:

7 Grayson Avenue, Papatoetoe, P O Box 97-040, Manukau City 2241.
Telephone: 64-9-277 6000, Facsimile: 64-9-279 4756

SHARE REGISTRAR:

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road, Takapuna, North Shore City, Private Bag 92-119, Auckland 1142.
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:

Bank of New Zealand

National Australia Bank Limited

WEBSITES:

Corporate	– www.cavcorp.co.nz
Carpet Operations	– www.cavbrem.co.nz, www.cavbrem.com.au, www.ontera.com.au, www.normanellison.co.nz
Yarn Operation	– www.radfordyarn.com
Wool Operations	– www.elcodirect.co.nz, www.cavalierwoolscourers.co.nz
Share Registrar	– www.computershare.co.nz/investorcentre

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