CAVALIER
CORPORATION

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Directors' Review

For the 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

Consolidated Income Statement Six months ended 31 December Unaudited	2013 $000s	2012 $000s	% change
Operating revenue	**101,895**	100,973	**1%**
EBIT (before restructuring costs)	**5,413**	496	**991%**
Net interest expense	**-1,733**	-1,940	**-11%**
Share of profit of associate (net of tax)	**792**	2,116	**-63%**
Profit before tax (normalised) [1]	**4,472**	672	**565%**
Tax	**-1,025**	340	
Profit after tax (normalised) [1]	**3,447**	1,012	**241%**
Restructuring costs (after tax)	**0**	427	
Profit after tax (reported)	**3,447**	1,439	**140%**
Earnings per share (cents) (normalised) [1]	**5.0**	1.5	**233%**

[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 23 of the half year report.

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 brand 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.

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 and will continue to 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 million, 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 off shore 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.

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

For more information regarding this announcement, please contact Colin McKenzie on 09 277 1138 (during office hours) or 027 292 4080 (outside office hours).