CAVALIER CORPORATION

7 Grayson Avenue, Papatoetoe, PO Box 97040, Manukau City, Manukau 2241, New Zealand
Phone 64-9-277 6000 Fax 64-9-279 4756

17 February 2017

Directors' Report

For the six months ended 31 December 2016

The half-year results reported today are in line with what the Directors expected when they recently announced that the normalised profit after tax for the 2016/17 year is forecast to be close to break-even.

FINANCIAL PERFORMANCE

Six months ended 31 December Unaudited	2016 $000s	2015 $000s
Revenue	**$84,278**	$98,422
EBIT (Normalised) [1]	**(1,183)**	4,268
Net interest expense	**(1,489)**	(1,961)
Share of equity-accounted investee profit (Normalised after tax) [1]	**88**	985
Profit/(Loss) before tax (Normalised) [1]	**(2,584)**	3,292
Income tax	**708**	(876)
Profit/(Loss) after tax (Normalised) [1]	**(1,876)**	2,416
Restructuring costs	**(1,833)**	(936)
Net gain on merger of equity-accounted investee	**3,740**	0
Gain on disposal of property, plant and equipment	**0**	2,035
Profit after tax (GAAP)	**$31**	$3,515
Earnings per share (cents) (Normalised) [1]	**(2.7)**	3.5
Earnings per share (cents) (GAAP)	**0.0**	5.1

[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 GAAP and normalised earnings together with further commentary on the disclosure of non-GAAP financial information are attached.

Last year's focus was debt reduction, inventory rationalisation and the restructuring of administration and sales functions. Our focus in recent months has been significant investment in the core business by consolidating manufacturing activities and re-invigorating the Cavalier Bremworth brand.

The short term cost of these essential reinvestment activities has impacted the current half year results, however they will progressively and significantly benefit the Company going forward. Other market factors such as increased wool price and the stronger USD have also adversely impacted the first half results.

The Group reports a break-even position for the half year (compared with $3.5m in 2015/16). Adjusting for the abnormal gain from the scour merger of $3.7m and transitional costs relating to the consolidation of Cavalier's wool spinning operation of $1.8m, the normalised loss for the first six months is $1.9m compared with a normalised gain of $2.4m last financial year.

FINANCIAL POSITION

The increase in net bank debt of $5.9m since the year-end reflects $6.0m of restructuring costs and $2.1m capital gains tax payment resulting from the sale of the Sydney warehouse in the last financial year. With these large one-off costs now behind us, debt will once again start to fall. In January, the Company received a dividend of $3.25m from Cavalier Wool Holdings Ltd (CWH) as a result of the scour merger, which has reduced debt.

In the last six months, management has improved the Company's inventory profile and reduced inventory by $8.5m. This has been achieved while it was also manufacturing the additional inventory required to support new products in the market.

Total assets and equity have remained in line with previous year-end.

CASH FLOWS

Net cash outflows from operations were $4.8m for the first six months, reflecting the large costs associated with the consolidation of manufacturing and the capital gains tax payment referred to above.

SEGMENT REVIEWS

Carpet Business

The sale of the Ontera carpet tile business in 2015/16 and the associated carpet tile revenue forgone is the main driver of the fall in revenue.

The NZ market has remained reasonably buoyant, however Australia has been much softer than anticipated particularly in the last two months. We are working hard with our retailers to stimulate sales.

We have now closed our Christchurch plant and moved the felting operation to Wanganui. Woollen yarn spinning is now conducted entirely out of the Napier plant. We acknowledge the management and staff of these operations for making this happen.

The carpet segment result for the first six months has been affected by a number of factors including:

- Significant restructuring costs associated with the consolidation of spinning operations;
- Higher wool price compared with the previous year;
- Higher USD impacting negatively on cost of synthetic yarn purchases; and
- Increased marketing costs in respect of the new Cavalier Bremworth World of Difference marketing campaign.

All of the above factors that have negatively impacted the six months (and the full year forecast) will either not repeat or have turned in our favour, with the benefits to come through in 2017/18.The significant gains from consolidating our manufacturing operations will also be progressively realised in the 2017/18 year.

Because there is about a six month lag between the purchase of wool and the manufacture and sale of carpet, we will not see the benefit from the current drop in wool price until 2017/18. Conversely, the high wool price that prevailed in the previous year is adversely impacting current profitability.

Wool Business

Our wool business comprises our wool buying operation, Elco Direct, and a 27.5% interest in the enlarged CWH wool scouring business post its merger with the wool scouring operations of New Zealand Wool Services International Ltd (NZWSI). This is to be compared with the 50% we held previously in a smaller pre-merger entity.

This year, both our wool-related businesses have been adversely impacted by the dramatic drop in wool price which has caught many in the industry by surprise and is due almost entirely to a lack of demand out of China.

Elco Direct, like many wool traders and exporters, had to exit stocks in a falling market and this impacted negatively on margins. The current price of wool is very low and growers are reluctant to sell at these levels. As a result, the flow of wool has abated significantly, with a high percentage of wool passed in at auction. Elco Direct has had three very strong years, but profits are down in the last six months reflecting the current challenging operating environment. Once demand returns and wool price stabilises, Elco Direct will be in a better position to buy and sell wool at a consistent margin.

After over two years of Court proceedings, the merger of CWH with the wool scouring operations of NZWSI was finally approved by the Court of Appeal in December. The purpose of the merger is to safeguard the wool scouring industry in New Zealand and our reduced share in a much bigger entity will be beneficial for the Company in the long term.

For the first six months, volume through the scour is considerably down on that for the same period last year. The total wool clip has not changed dramatically, but at current low prices, growers and exporters are holding off committing to selling and scouring wool. We are confident that the wool will eventually come on to market and be scoured once pricing and demand settle at their new levels.

The consolidation of the scouring businesses is expected to take a year to complete. In the short term, CWH will experience some inefficiencies while equipment is being moved and reconfigured.

EARNINGS OUTLOOK

The Directors reiterate that their forecast for 2016/17 remains unchanged. We expect the result for 2016/17 to be close to breakeven on a normalised tax-paid basis.

2016/17 is a year of investment in the long term future of the Company, and we remain confident that the benefits of the work done this year together with changes in the macro environment will flow through into improved results.

DIVIDENDS

The Directors have previously advised that as soon as we are in a position to confirm an ongoing improvement in underlying performance and we have our debt firmly under control, we will resume dividend payments. While good progress has been made, we are not there yet. The NZD:AUD exchange rate and the weakness in the Australian economy remain a concern to Cavalier as an exporter. As a consequence, no dividend is being paid at this time.

S E F Haydon	S R Bootten
Chairman	Director

For more information regarding this announcement, please contact Paul Alston, Chief Executive Officer, on 021 918 033 or 09 277 1135.

Cavalier Corporation Limited and subsidiary companies

Disclosure of Non-GAAP Financial Information

For the six months ended 31 December 2016

The half year report for the six months ended 31 December 2016 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 the unaudited GAAP-compliant half year and audited GAAP-compliant full year 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 *"EBITDA (normalised)"*, *"EBIT (normalised)"*, *"Profit before tax (normalised)"* and *"Profit after tax (normalised)"* provide useful information to investors regarding the performance of the Group because the calculations exclude restructuring costs and other gains/losses (for example, gain on sale of property) that are not expected to occur on a regular basis either by virtue of quantum or nature.

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 Chief Executive Officer 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.

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

Cavalier Corporation Limited and subsidiary companies

Disclosure of Non-GAAP Financial Information (continued)

Reconciliation of GAAP-compliant to non GAAP-compliant measures of profit/(loss) after tax

	Six months ended 31 Dec 2016			
	GAAP $000	**Adjustments $000**		**Normalised $000**
Revenue	**$84,278**	-		$84,278
EBITDA	**(2,049)**	2,546	[1]	497
Depreciation	**(1,680)**	-		(1,680)
EBIT	**(3,729)**	2,546		(1,183)
Net interest expense	**(1,489)**	-		(1,489)
Share of profit after tax of equity-accounted investee	**65**	23		88
Gain on merger and dilution of equity-accounted investee	**3,763**	(3,763)		-
Loss before tax	**(1,390)**	(1,194)		(2,584)
Tax credit	**1,421**	(713)	[2]	708
Profit/(Loss) after tax	**$31**	(1,907)		(1,876)
Abnormal net gains after tax		1,907		1,907
Profit after tax (GAAP)		-		$31

Analysis of reversals

	Loss before tax $000	**Tax effect $000**	**Loss after tax $000**
Restructuring costs [1, 2]	$(2,546)	$713	$(1,833)