



Half Year Report  
for the six months ended 31 December 2009

## TABLE OF CONTENTS

### Half Year Report

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Financial Summary	1
Directors' Review	3
Auditors' Review Report	6
Condensed Consolidated Income Statement	7
Condensed Consolidated Statement of Comprehensive Income	8
Condensed Consolidated Statement of Changes in Equity	9
Condensed Consolidated Statement of Financial Position	12
Condensed Consolidated Statement of Cash Flows	13
Notes to the Financial Statements	14
Directory	IBC

## FINANCIAL SUMMARY

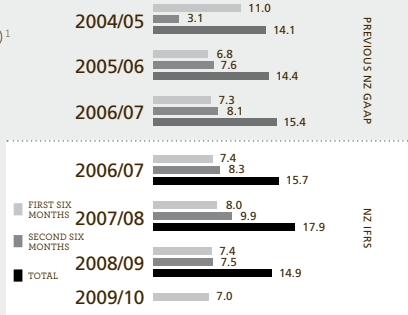
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	Unaudited Six months ended 31 Dec 2009 \$000	Unaudited Six months ended 31 Dec 2008 \$000	Audited Year ended 30 June 2009 \$000
<b>Revenue</b>	<b>\$112,828</b>	\$131,587	\$246,686
EBITD and abnormal items	<b>12,581</b>	17,946	31,643
Abnormal items	-	-	1,238
EBITD	<b>12,581</b>	17,946	32,881
Depreciation	<b>(2,889)</b>	(3,820)	(6,643)
Earnings before interest and tax	<b>9,692</b>	14,126	26,238
Net interest expense	<b>(1,626)</b>	(3,381)	(5,936)
Share of profit of equity-accounted investee (net of income tax)	<b>1,355</b>	6	430
Profit before income tax	<b>9,421</b>	10,751	20,732
Income tax expense	<b>(2,407)</b>	(3,315)	(5,843)
<b>Profit after income tax</b>	<b>\$7,014</b>	\$7,436	\$14,889
<b>Net cash flow from operating activities</b>	<b>\$14,965</b>	\$7,759	\$26,618
<b>Basic and diluted earnings per share (annualised) (cents)</b> – based on weighted average number of shares outstanding during the period of 67,320,071 (31 December 2008 – 67,082,444; 30 June 2009 – 67,082,444)	<b>20.8</b>	22.2	22.2
<b>Return on average shareholders' equity (annualised) (%)</b>	<b>15.9%</b>	17.7%	17.2%
<b>Dividends paid per share (cents)</b>			
Previous year's final	<b>8.0</b>	11.0	11.0
Current year's first interim	<b>3.0</b>	3.0	3.0
Current year's second interim	-	-	4.0
<b>Total</b>	<b>11.0</b>	14.0	18.0

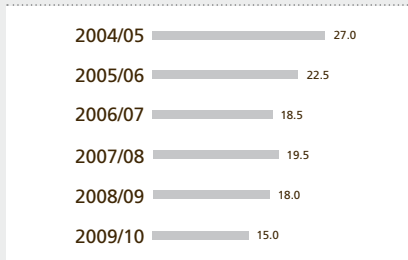
	Unaudited As at 31 Dec 2009	Unaudited As at 31 Dec 2008	Audited As at 30 June 2009
<b>Net tangible asset backing per share (\$)</b>	<b>\$1.24</b>	\$1.06	\$1.22
<b>Proprietorship ratio (%)</b>	<b>47.6%</b>	36.3%	44.6%
<b>Net interest-bearing debt to equity ratio</b>	<b>39:61</b>	53:47	42:58

# FINANCIAL SUMMARY

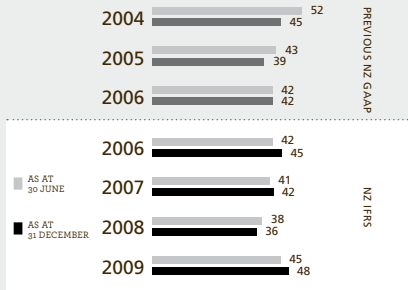
## OPERATING SURPLUS AFTER TAX (\$ MILLIONS)<sup>1</sup>



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



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



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

<sup>2</sup> 2009/10 dividends paid include second interim dividend declared and paid after 31 December 2009.

<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%.

## DIRECTORS' REVIEW

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

3

## Financial Performance

	Unaudited six months ended		Change
	31 Dec 2009 \$000s	31 Dec 2008 \$000s	
<b>Operating revenue</b>	<b>\$112,828</b>	\$131,587	(14%)
<b>Earnings before interest and tax</b>	<b>9,692</b>	14,126	(31%)
Net interest expense	(1,626)	(3,381)	(52%)
Share of profit of equity-accounted investee (net of tax)	1,355	6	
<b>Profit before tax</b>	<b>9,421</b>	10,751	(12%)
Tax	(2,407)	(3,315)	(27%)
<b>Profit after tax</b>	<b>\$7,014</b>	\$7,436	(6%)
<b>Earnings per share (cents)</b>	<b>10.4</b>	11.1	(6%)

The Directors of Cavalier Corporation announce an unaudited profit after tax of \$7.0 million for the six months to 31 December 2009. This represents a decrease of 6% on the \$7.4 million the previous year.

Whilst the results for the period are down on the previous year's, the Directors consider these to be more than reasonable given that we are benchmarking ourselves against a six month period when the effects of the New Zealand recession and the fallout from the global financial crisis were only just starting to be felt.

When comparing the detailed results for the current period with those for the previous year's, shareholders should note that the Cavalier Wool Holdings Limited wool processing operation was accounted for as a subsidiary in the previous year, but as an equity-accounted investee in the current period.

Group revenue for the six months was \$113 million, a decrease of 14% on the \$132 million the previous year.

On a like-for-like basis and with the revenue of Cavalier Wool Holdings excluded from the comparative, for reasons as explained above, Group revenue would be down 7% on the previous year.

Return on average shareholders' equity for the six months was 15.9% and earnings per share was 20.8 cents (both annualised), compared with 17.7% and 22.2 cents respectively the previous year.

The weaker results reflect adverse market conditions for the carpet business offset to some extent by a much-improved wool processing business as a direct result of the wool processing industry rationalisation and the restructuring we undertook in April last year.

## Financial Position

Shareholders' equity at 31 December 2009 stood at \$89.2 million, which is an improvement of \$6.7 million on the \$82.5 million a year ago and \$1.6 million on the \$87.6 million at 30 June 2009.

At the same time, total assets employed at 31 December 2009 came in at \$188 million, compared with \$227 million a year ago and \$196 million at 30 June 2009.

As a result, shareholders' equity accounted for 48% of total assets employed at balance date, compared with just 36% a year ago and 45% at 30 June 2009.

Net debt at balance date stood at \$57.3 million and net debt to equity ratio was 39:61. These can be compared with \$92.9 million and 53:47 respectively the previous year and \$64.6 million and 42:58 respectively six months ago.

The Group's much-improved financial position over the past 12 months – due, in the main, to the funds released from the reduction in working capital employed in the business and from the successful restructuring of the Group's wool processing interests – will see it well-positioned to weather the current difficult operating environment, but more importantly to capitalise on any opportunities that may emerge when economic conditions improve.

## Segment Reviews

### Carpet Business

In the six month period to 31 December 2009, our carpet business produced earnings before interest and tax of \$10.1 million on revenue of \$103.6 million. Earnings and revenue were down 29% and 9% respectively on the previous year.

Our carpet business comprises broadloom carpets and carpet tiles with NZ and Australia being its main markets.

Market conditions for both commercial and residential carpets were difficult throughout the period and continue to be affected by the underlying concerns associated with the global economic slowdown and financial crisis. When these concerns first emerged in the last quarter of 2008, they caused the worst turnaround in trading ever experienced by the business.

That said, our carpet business has coped remarkably well under the adverse conditions and the cost reduction programme undertaken in the previous financial year has helped to cushion the impact of the lower revenue on earnings.

We experienced slightly better trading conditions towards the latter part of this reporting period, particularly with our premium brands in Australia. However, any further improvement can only be gradual as the general market sentiment is still very fragile and volatile.

### Wool Business

Our wool business comprises our 50% interest in Cavalier Wool Holdings Limited and the Elco Direct wool acquisition operation.

In April last year, we instigated a major rationalisation of the wool processing industry. This eventually led to the acquisition of the wool processing business of a competitor and the removal of approximately 77% of the industry's excess capacity. At the same time, we restructured our investment in Cavalier Wool Holdings and reduced our shareholding interest from 92.5% to 50%.

Cavalier's share of the tax paid earnings of Cavalier Wool Holdings for the six months to 31 December 2009 is \$1.4 million. This is well ahead of the earnings from this business in the previous year even though it is difficult to make a meaningful comparison against the previous year because of the restructuring and the consequent dilution of our interest.

Earnings before interest and tax for Elco Direct were \$270,000 for the six months to 31 December 2009 on revenue of \$12.0 million, compared with a \$109,000 loss before interest and

tax on revenue of \$11.1 million the previous year. The very significant turnaround in earnings can be attributed to the 9% increase in revenue and to lower operating costs.

### Earnings Outlook

Indications are that the adverse market conditions for our carpet business have bottomed out, and we are cautiously optimistic that we will see a gradual lifting of revenue here. At the same time, our wool business is about to enter into the busy part of the season, and the volumes of wool coming onto the market and being sold are so far holding up well.

We are continuing to express our 2009/10 earnings outlook as a range and whilst we have previously indicated a range of between \$13.5 million to \$15.5 million, our latest assessment of our earnings after tax for the 2009/10 financial year is indicating a range of between \$14.5 million to \$15.5 million. This is an improvement on the outlook provided to shareholders in the previous year's Annual Report and at the November 2009 Annual Meeting. This range represents a 6% to 13% increase on the previous year's normalised tax paid earnings of \$13.7 million.

### 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 2010 of 4 cents per share, unchanged on the equivalent for the previous year.

This, together with the first interim dividend of 3 cents per share paid in December 2009, brings the total interim dividend (fully imputed at the rate of 0.4925) to 7 cents per share, also unchanged on the previous year's total interim dividend.

This second interim dividend will be paid on Friday, 19 March 2010. The share register will close at 5 p.m. on Friday, 5 March 2010 for the purpose of determining entitlement to the dividend and will reopen on Monday, 8 March 2010.

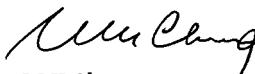
Non-resident shareholders will also be receiving a supplementary dividend of 0.7059 cents per share together with their second interim dividend.

The Cavalier Corporation Limited Dividend Reinvestment Plan which allows shareholders to receive shares in the Company in lieu of dividends will apply to the second interim dividend. Shareholders wishing to participate and who have not previously notified the Company's Share Registrar must do so before 5 p.m. on Friday, 5 March 2010. A copy of the Participation Notice can be obtained from the Company's Share Registrar.

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, 8 March 2010 to Friday, 12 March 2010 without any discount.



**A M James**  
Chairman



**W K Chung**  
Managing Director

19 February 2010

# AUDITORS' REVIEW REPORT



## To the Shareholders of Cavalier Corporation Limited

We have reviewed the attached interim financial statements 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 of Cavalier Corporation Limited and its subsidiaries ("the Group") and its financial position as at 31 December 2009.

## Directors' Responsibilities

The Directors of Cavalier Corporation Limited 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 2009 and the results of its operations and cash flows for the six months 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. 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 Group. 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 attached interim financial statements do not give a true and fair view of the financial position of the Group as at 31 December 2009, the results of its operations and cash flows for the six months ended on that date in accordance with NZ IAS 34 *Interim Financial Reporting*.

Our review was completed on 19 February 2010 and our opinion is expressed as at that date.

A handwritten signature of 'KPMG.' in black ink, written in a cursive, slightly slanted style.

Auckland

## CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Unaudited Six months ended 31 Dec 2009 \$000	Unaudited Six months ended 31 Dec 2008 \$000	Audited Year ended 30 June 2009 \$000
<b>Continuing operations</b>				
<b>Revenue</b>	3	<b>112,828</b>	131,587	246,686
Cost of sales		<b>(78,736)</b>	(88,061)	(167,069)
<b>Gross profit</b>		<b>34,092</b>	43,526	79,617
Other income	4	<b>(19)</b>	20	34
Distribution expenses		<b>(17,639)</b>	(20,197)	(37,066)
Administration expenses		<b>(6,742)</b>	(9,223)	(17,585)
<b>Results from operating activities before impairment of trademarks and gain on dilution of subsidiary</b>		<b>9,692</b>	14,126	25,000
Impairment of trademarks		-	-	(605)
Gain on dilution of subsidiary		-	-	1,843
<b>Results from operating activities</b>		<b>9,692</b>	14,126	26,238
Finance income		-	1	1
Finance expenses		<b>(1,626)</b>	(3,382)	(5,937)
<b>Net finance costs</b>		<b>(1,626)</b>	(3,381)	(5,936)
Share of profit of equity-accounted investee (net of income tax)		<b>1,355</b>	6	430
<b>Profit before income tax</b>	5	<b>9,421</b>	10,751	20,732
Income tax expense		<b>(2,407)</b>	(3,315)	(5,843)
<b>Profit after tax for the period</b>		<b>\$7,014</b>	\$7,436	\$14,889
<b>Profit after tax attributable to:</b>				
Shareholders of Cavalier Corporation Ltd		<b>7,014</b>	7,436	14,889
Non-controllable interests		-	-	-
<b>Profit after tax for the period</b>		<b>\$7,014</b>	\$7,436	\$14,889
<b>Basic and diluted earnings per share (cents)</b>		<b>10.4</b>	11.1	22.2
<b>Weighted average number of shares outstanding during the period (000s)</b>		<b>67,320.1</b>	67,082.4	67,082.4

This statement is to be read in conjunction with the Notes on pages 14 to 20 and the previous year's annual financial statements.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

8

	Unaudited Six months ended 31 Dec 2009 \$000	Unaudited Six months ended 31 Dec 2008 \$000	Audited Year ended 30 June 2009 \$000
<b>Profit after tax for the period</b>	<b>7,014</b>	7,436	14,889
<b>Other comprehensive income</b>			
Effective portion of changes in fair value of cash flow hedges	<b>690</b>	616	(336)
Foreign currency translation differences for foreign operations	<b>(166)</b>	(1,143)	(288)
Income tax on other comprehensive income	<b>(207)</b>	(182)	101
<b>Other comprehensive income for the period, net of income tax</b>	<b>317</b>	(709)	(523)
<b>Total comprehensive income for the period</b>	<b>\$7,331</b>	\$6,727	\$14,366
<b>Total comprehensive income attributable to:</b>			
Shareholders of Cavalier Corporation Limited	<b>7,331</b>	6,727	14,366
Non-controllable interests	-	-	-
<b>Total comprehensive income for the period</b>	<b>\$7,331</b>	\$6,727	\$14,366

This statement is to be read in conjunction with the Notes on pages 14 to 20 and the previous year's annual financial statements.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 31 December 2009 (Unaudited)	Share Capital	Cash Flow Hedging Reserve	Foreign Currency Translation Reserve	Share Rights Reserve	Retained Earnings	Total Equity
	\$000	\$000	\$000	\$000	\$000	\$000
<b>Total equity at beginning of the period</b>	<b>\$17,967</b>	<b>\$(625)</b>	<b>\$1,480</b>	<b>\$959</b>	<b>\$67,814</b>	<b>\$87,595</b>
<b>Total comprehensive income for the period</b>						
<b>Profit after tax for the period</b>	-	-	-	-	<b>7,014</b>	<b>7,014</b>
<b>Other comprehensive income for the period</b>						
Effective portion of changes in fair value of cash flow hedges (net of tax)	-	<b>483</b>	-	-	-	<b>483</b>
Foreign currency translation differences for foreign operations	-	-	<b>(166)</b>	-	-	<b>(166)</b>
<b>Total other comprehensive income</b>	-	<b>483</b>	<b>(166)</b>	-	-	<b>317</b>
<b>Total comprehensive income for the period</b>	-	<b>483</b>	<b>(166)</b>	-	<b>7,014</b>	<b>7,331</b>
<b>Transactions with owners, recorded directly in equity</b>						
Dividends paid to equity holders of the Company	-	-	-	-	<b>(7,395)</b>	<b>(7,395)</b>
Issue of ordinary shares	<b>1,572</b>	-	-	-	-	<b>1,572</b>
Equity-settled share-based payments	-	-	-	<b>100</b>	-	<b>100</b>
<b>Total equity at end of the period</b>	<b>\$19,539</b>	<b>\$(142)</b>	<b>\$1,314</b>	<b>\$1,059</b>	<b>\$67,433</b>	<b>\$89,203</b>

This statement is to be read in conjunction with the Notes on pages 14 to 20 and the previous year's annual financial statements.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Six months ended 31 December 2008 (Unaudited)	Share Capital	Cash Flow Hedging Reserve	Foreign Currency Translation Reserve	Share Rights Reserve	Retained Earnings	Total Equity
	\$000	\$000	\$000	\$000	\$000	\$000
<b>Total equity at beginning of the period</b>	\$17,967	\$(390)	\$1,768	\$759	\$65,000	\$85,104
<b>Total comprehensive income for the period</b>						
<b>Profit after tax for the period</b>	-	-	-	-	7,436	7,436
<b>Other comprehensive income for the period</b>						
Effective portion of changes in fair value of cash flow hedges (net of tax)	-	434	-	-	-	434
Foreign currency translation differences for foreign operations	-	-	(1,143)	-	-	(1,143)
<b>Total other comprehensive income</b>	-	434	(1,143)	-	-	(709)
<b>Total comprehensive income for the period</b>	-	434	(1,143)	-	7,436	6,727
<b>Transactions with owners, recorded directly in equity</b>						
Dividends paid to equity holders of the Company	-	-	-	-	(9,392)	(9,392)
Equity-settled share-based payments	-	-	-	100	-	100
<b>Total equity at end of the period</b>	\$17,967	\$44	\$625	\$859	\$63,044	\$82,539

This statement is to be read in conjunction with the Notes on pages 14 to 20 and the previous year's annual financial statements.

CONDENSED CONSOLIDATED STATEMENT OF **CHANGES IN EQUITY** (continued)

Year ended 30 June 2009 (Audited)	Share Capital	Cash Flow Hedging Reserve	Foreign Currency Translation Reserve	Share Rights Reserve	Retained Earnings	Total Equity
	\$000	\$000	\$000	\$000	\$000	\$000
<b>Total equity at beginning of the period</b>	\$17,967	\$(390)	\$1,768	\$759	\$65,000	\$85,104
<b>Total comprehensive income for the period</b>						
<b>Profit after tax for the period</b>	-	-	-	-	14,889	14,889
<b>Other comprehensive income for the period</b>						
Effective portion of changes in fair value of cash flow hedges (net of tax)	-	(235)	-	-	-	(235)
Foreign currency translation differences for foreign operations	-	-	(288)	-	-	(288)
<b>Total other comprehensive income</b>	-	(235)	(288)	-	-	(523)
<b>Total comprehensive income for the period</b>	-	(235)	(288)	-	14,889	14,366
<b>Transactions with owners, recorded directly in equity</b>						
Dividends paid to equity holders of the Company	-	-	-	-	(12,075)	(12,075)
Equity-settled share-based payments	-	-	-	200	-	200
<b>Total equity at end of the period</b>	\$17,967	\$(625)	\$1,480	\$959	\$67,814	\$87,595

This statement is to be read in conjunction with the Notes on pages 14 to 20 and the previous year's annual financial statements.

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Unaudited 31 Dec 2009 \$000	Unaudited 31 Dec 2008 \$000	Audited 30 June 2009 \$000
<b>ASSETS</b>				
Property, plant and equipment	7	76,344	103,554	77,013
Intangible assets		5,533	11,137	5,533
Investments in equity-accounted investee		20,214	175	18,859
Deferred tax asset		3,143	1,596	3,175
<b>Total non-current assets</b>		<b>105,234</b>	<b>116,462</b>	<b>104,580</b>
Cash and cash equivalents		2,849	4,549	3,685
Advances to equity-accounted investee		-	-	500
Trade and other receivables		29,328	35,215	30,820
Inventories		49,509	69,897	56,299
Derivative financial instruments		635	1,131	560
Plant and equipment held for sale		20	20	20
<b>Total current assets</b>		<b>82,341</b>	<b>110,812</b>	<b>91,884</b>
<b>Total assets</b>		<b>\$187,575</b>	<b>\$227,274</b>	<b>\$196,464</b>
<b>EQUITY</b>				
Share capital		19,539	17,967	17,967
Cash flow hedging reserve		(142)	44	(625)
Foreign currency translation reserve		1,314	625	1,480
Share rights reserve		1,059	859	959
Retained earnings		67,433	63,044	67,814
<b>Total equity attributable to equity holders of the Company</b>		<b>89,203</b>	<b>82,539</b>	<b>87,595</b>
<b>LIABILITIES</b>				
Loans and borrowings	8	59,094	93,000	54,585
Employee benefits		3,241	3,364	3,348
Other payables		2,399	3,049	2,399
Deferred income		316	289	299
Provisions		350	213	278
<b>Total non-current liabilities</b>		<b>65,400</b>	<b>99,915</b>	<b>60,909</b>
Bank overdraft	8	548	161	167
Loans and borrowings	8, 12	524	4,322	13,549
Trade creditors and accruals		29,866	35,986	29,121
Other payables		745	3,480	2,010
Deferred income		55	38	40
Derivative financial instruments		888	608	1,690
Tax payable		346	225	1,383
<b>Total current liabilities</b>		<b>32,972</b>	<b>44,820</b>	<b>47,960</b>
<b>Total liabilities</b>		<b>98,372</b>	<b>144,735</b>	<b>108,869</b>
<b>Total equity and liabilities</b>		<b>\$187,575</b>	<b>\$227,274</b>	<b>\$196,464</b>

This statement is to be read in conjunction with the Notes on pages 14 to 20 and the previous year's annual financial statements.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Unaudited Six months ended 31 Dec 2009 \$000	Unaudited Six months ended 31 Dec 2008 \$000	Audited Year ended 30 June 2009 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash receipts from customers		112,983	137,796	258,015
Cash paid to suppliers and employees		(93,134)	(123,281)	(221,485)
		19,849	14,515	36,530
Interest received		-	1	1
Dividends received		2	2	2
Other receipts		5	18	29
GST refunded/(paid)		471	37	688
Interest paid		(1,721)	(3,551)	(6,346)
Income tax paid		(3,641)	(3,263)	(4,286)
<b>Net cash flow from operating activities</b>	6	14,965	7,759	26,618
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sale of property, plant and equipment		131	81	124
Acquisition of property, plant and equipment	7	(2,500)	(8,436)	(12,510)
Receipt of Australian Government grants		1,209	721	721
Contingent purchase consideration of non-controllable interests		(1,265)	-	(456)
Business restructuring costs		-	-	(127)
Dividends received from equity-accounted investee		1,500	-	-
Acquisition of shares in equity-accounted investee		(1,500)	-	-
<b>Net cash flow from investing activities</b>		(2,425)	(7,634)	(12,248)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Borrowings repaid		(8,481)	13,921	(15,469)
Advance to equity-accounted investee repaid		500	-	16,774
Dividends paid to equity holders of the Company		(7,395)	(9,392)	(12,075)
Dividends reinvested by equity holders of the Company		1,572	-	-
<b>Net cash flow from financing activities</b>		(13,804)	4,529	(10,770)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>				
		(1,264)	4,654	3,600
Cash and cash equivalents at beginning of the period		3,518	(148)	(148)
Cash divested on de-consolidation of subsidiary		-	-	158
Effect of exchange rate changes on cash		47	(118)	(92)
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>		\$2,301	\$4,388	\$3,518

This statement is to be read in conjunction with the Notes on pages 14 to 20 and the previous year's annual financial statements.

# NOTES to the Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

## 1. General

Cavalier Corporation Limited ("Cavalier" or "Company") is a company that is domiciled and incorporated 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 business and a wool procurement business.

All the subsidiaries in the Group are wholly-owned except for the following:

- Norman Ellison Carpets Limited, Carpet Distributors Limited, Norman Ellison Carpets Proprietary Limited and two dormant companies in the Norman Ellison group of companies – 70% owned
- Ontera Modular Carpets Proprietary Limited and Ontera Modular Carpets Limited – 96.75% owned

Because of the need to recognise the put options granted to the non-controllable interests in respect of their shareholdings in these subsidiaries as financial liabilities in the balance sheet, the non-controllable interests have been similarly derecognised in the financial statements and have been accounted for as if the Group owned a 100% of these subsidiaries.

Cavalier also has a 50% interest in Cavalier Wool Holdings Limited, Cavalier Woollscourers Limited and five dormant companies in the Cavalier Wool Holdings group of companies. The Cavalier Wool Holdings group of companies is involved in commission wool processing.

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 19 February 2010.

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*. 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 2008, are unaudited. The comparative information for the year ended 30 June 2009 is audited.

## 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 2009. 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 <b>31 Dec 2009</b> \$000	Six months ended <b>31 Dec 2008</b> \$000	Year ended <b>30 June 2009</b> \$000
<b>3. Revenue</b>			
Sales of goods	<b>112,828</b>	121,850	228,047
Provision of services	-	9,737	18,639
Total revenue	<b>\$112,828</b>	\$131,587	\$246,686

<b>4. Other Income</b>			
Rentals received	<b>5</b>	19	29
Dividends received	<b>2</b>	2	2
Net gain/(loss) on disposal of property, plant and equipment	<b>(26)</b>	(1)	3
Total other income	<b>\$ (19)</b>	\$20	\$34

<b>5. Expenses</b>			
<b>Profit before income tax includes the following:</b>			
Depreciation	<b>2,889</b>	3,820	6,643
Operating lease and rental costs	<b>3,395</b>	3,508	7,012

	Six months ended <b>31 Dec 2009</b> \$000	Six months ended <b>31 Dec 2008</b> \$000	Year ended <b>30 June 2009</b> \$000
<b>6. Cash Flow Reconciliation</b>			
<b>Profit after tax for the period</b>	<b>7,014</b>	7,436	14,889
<b>Add/(Deduct) non-cash and other items:</b>			
Equity-settled share-based transactions	<b>100</b>	100	200
Depreciation	<b>2,889</b>	3,820	6,643
Share of profit of equity-accounted investee	<b>(1,355)</b>	(6)	(430)
Impairment of trademarks	-	-	605
Gain on dilution of subsidiary	-	-	(1,843)
Deferred government grants	-	(72)	(342)
Deferred tax asset	<b>(187)</b>	164	(13)
Employee benefits	<b>(105)</b>	56	33
Deferred income	<b>32</b>	65	77
Provisions	<b>72</b>	(29)	37
Net (gain)/loss on sale of property, plant and equipment	<b>26</b>	1	(3)
Net loss on foreign currency balance	<b>13</b>	45	42
<b>Changes in working capital items:</b>			
Trade and other receivables	<b>172</b>	7,711	8,519
Inventories	<b>6,752</b>	(6,021)	5,345
Tax receivable	<b>(1,044)</b>	(95)	1,575
Trade creditors and accruals	<b>757</b>	(4,307)	(8,316)
Derivative financial instruments	<b>(171)</b>	(1,109)	(400)
<b>Net cash flow from operating activities</b>	<b>\$14,965</b>	\$7,759	\$26,618

## 7. 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 \$1.0 million incurred in New Zealand and \$1.5 million in Australia.

## 8. Assets Pledged as Security

The Group's funding facilities are with the ANZ National Bank Limited and the Australia and New Zealand Banking Group Limited ("the Bank"). These funding facilities are secured by various general security agreements with the Bank and by registered mortgages over land and buildings.

## 9. Events After Balance Date

### Dividends

The Directors declared, on 19 February 2010, a fully imputed second interim dividend of 4 cents per share on the 67,722,568 shares on issue to give a total second interim dividend of \$2,708,903.

	As at 31 Dec 2009 \$000	As at 31 Dec 2008 \$000	As at 30 June 2009 \$000
<b>10. Capital Expenditure Commitments</b>			
Capital expenditure commitments	<b>\$2,140</b>	\$3,551	\$1,237
<b>11. Contingent Liabilities</b>			
Bank guarantees in respect of operating leases and other obligations	<b>\$1,417</b>	\$1,489	\$1,421
<b>12. Related Party Transactions</b>			
Loans and borrowings disclosed as current liabilities in the Statement of Financial Position include borrowings from the following related parties:			
Chippendale Holdings Limited	<b>404</b>	1,678	34
Rural Aviation (1963) Limited	<b>120</b>	1,292	116
Total	<b>\$524</b>	\$2,970	\$150
Interest rate	<b>3.45%</b>	5.85%	3.45%

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 4.47%, 6.73% and 4.47% 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 835,000 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 ended 31 December 2009. 895,000 share rights were issued during the six months ended 31 December 2008. The estimated fair value of these share rights were \$0.25 each at date of issue (2008 \$0.25).

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

The value of services contracted directly with CWH during the six months to 31 December 2009 was \$342,000. The value of services contracted directly with CWH over the period from 16 April 2009 to 30 June 2009 was \$83,000.

The Group also provides CWH with management services. The value of the fees charged during the six months to 31 December 2009 was \$36,000. No management fees were charged previously.

Dividends totalling \$1,500,000 were received from CWH during the six months to 31 December 2009. No dividends were received previously.

CWH was a consolidated subsidiary of the Group until 16 April 2009 when it was de-consolidated following the dilution of the Group's interest from 92.5% to 50% as part of an arrangement aimed at rationalising the wool processing industry.

### 13. Segment Reporting

The Group operates in two segments:

- carpets, which involves the manufacturing and sales of the Bremworth, Cavalier Bremworth, Knightsbridge, Kimberley, Tramore, Ontera and Norman Ellison brands of carpet; and
- wool acquisition.

	CARPETS			WOOL
	Six months ended 31 Dec 2009 \$000	Six months ended 31 Dec 2008 \$000	Year ended 30 June 2009 \$000	Six months ended 31 Dec 2009 \$000
External revenue	103,619	114,264	209,624	-
Inter-segment revenue	-	-	-	-
<b>Total revenue</b>	<b>\$103,619</b>	<b>\$114,264</b>	<b>\$209,624</b>	-
Elimination of inter-segment revenue				
Consolidated revenue				
EBITD and abnormal items	12,935	16,994	27,243	-
Abnormal items	-	-	(605)	-
Depreciation	(2,832)	(2,851)	(5,080)	-
<b>EBIT</b>	<b>10,103</b>	<b>14,143</b>	<b>21,558</b>	-
Elimination of inter-segment profits				
Unallocated corporate costs				
Consolidated results from operating activities				
Net finance costs				
Share of profit of equity-accounted investee (net of income tax)				
Profit before income tax				
Income tax expense				
<b>Profit after tax for the period</b>				
Reportable segment assets	163,639	185,749	173,505	-
Investment in equity-accounted investee				
Unallocated assets				
<b>Total assets</b>				
<b>Capital expenditure</b>	<b>2,496</b>	<b>7,438</b>	<b>11,348</b>	-
Reportable segment liabilities	36,463	42,694	39,349	-
Unallocated liabilities				
<b>Total liabilities</b>				
<b>Employee numbers</b>				
Operations	909	979	904	-
Unallocated				
Total				

PROCESSING		WOOL ACQUISITION			TOTAL		
Six months ended	Year ended	Six months ended	Six months ended	Year ended	Six months ended	Six months ended	Year ended
31 Dec 2008	30 June 2009	31 Dec 2009	31 Dec 2008	30 June 2009	31 Dec 2009	31 Dec 2008	30 June 2009
\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
9,737	18,639	<b>9,209</b>	7,586	18,423	<b>112,828</b>	131,587	246,686
311	635	<b>2,830</b>	3,478	5,214	<b>2,830</b>	3,789	5,849
\$10,048	\$19,274	<b>\$12,039</b>	\$11,064	\$23,637	<b>115,658</b>	135,376	252,535
					<b>(2,830)</b>	(3,789)	(5,849)
					<b>\$112,828</b>	\$131,587	\$246,686
1,898	5,677	<b>327</b>	(46)	180	<b>13,262</b>	18,846	33,100
-	1,843	-	-	-	-	-	1,238
(906)	(1,449)	<b>(57)</b>	(63)	(114)	<b>(2,889)</b>	(3,820)	(6,643)
992	6,071	<b>270</b>	(109)	66	<b>10,373</b>	15,026	27,695
					<b>169</b>	-	142
					<b>(850)</b>	(900)	(1,599)
					<b>9,692</b>	14,126	26,238
					<b>(1,626)</b>	(3,381)	(5,936)
					<b>1,355</b>	6	430
					<b>9,421</b>	10,751	20,732
					<b>(2,407)</b>	(3,315)	(5,843)
					<b>\$7,014</b>	\$7,436	\$14,889
36,283	-	<b>3,702</b>	5,047	4,080	<b>167,341</b>	227,079	177,585
					<b>20,214</b>	175	18,859
					<b>20</b>	20	20
					<b>\$187,575</b>	\$227,274	\$196,464
962	1,126	<b>4</b>	36	36	<b>\$2,500</b>	\$8,436	\$12,510
2,351	-	<b>2,291</b>	2,368	1,386	<b>38,754</b>	47,413	40,735
					<b>59,618</b>	97,322	68,134
					<b>\$98,372</b>	\$144,735	\$108,869
83	-	<b>29</b>	36	31	<b>938</b>	1,098	935
					<b>4</b>	4	4
					<b>942</b>	1,102	939

### 13. Segment Reporting (continued)

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.

In the previous financial year, the Group was also involved in wool processing, but its involvement in that segment changed when Cavalier Wool Holdings Limited (CWH) was de-consolidated following the dilution of the Group's interest from 92.5% to 50%, making CWH an equity-accounted investee.

#### Information about geographical areas

In presenting information on the basis of geographical areas, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

	Six months ended <b>31 Dec 2009</b> <b>\$000</b>	Six months ended <b>31 Dec 2008</b> <b>\$000</b>	Year ended <b>30 June 2009</b> <b>\$000</b>
<b>Revenue</b>			
New Zealand	<b>53,139</b>	65,941	125,670
Australia	<b>58,195</b>	63,460	116,291
Rest of the world	<b>1,494</b>	2,186	4,725
	<b>\$112,828</b>	\$131,587	\$246,686

	As at <b>31 Dec 2009</b> <b>\$000</b>	As at <b>31 Dec 2008</b> <b>\$000</b>	As at <b>30 June 2009</b> <b>\$000</b>
<b>Non-current assets</b>			
New Zealand	<b>81,031</b>	95,369	81,084
Australia	<b>24,203</b>	21,093	23,496
	<b>\$105,234</b>	\$116,462	\$104,580

#### Information about major customers

None of the Group's customers are major customers as defined in NZ IFRS 8 *Operating Segments*. 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.

# DIRECTORY

## Directors:

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

*Non-executive, Non-independent*

**W K Chung** B.Com., CA

**R G Ebbett** B.Com., ACA, FlntD

*Non-executive, Independent*

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

*Non-executive, Independent*

**D W Huse** BCA, CA, MlnstD, MAICD

*Non-executive, Independent*

(Appointed 1 February 2010)

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

*Non-executive, Independent*

**V T S Tan** CA, ACIS

**K L Thorpe** M.A.

*Non-executive, Independent*

Deputy Chairman of the Board

Member of Audit Committee

Member of Remuneration Committee

Managing Director

Chairman of Audit Committee

Member of Remuneration Committee

Member of Audit Committee

Member of Remuneration Committee

Member of Audit Committee

Member of Remuneration Committee

Chairman of the Board

Member of Audit Committee

Chairman of Remuneration Committee

Finance Director

Member of Audit Committee

Member of Remuneration Committee

## Company Secretary:

**V T S Tan** CA, ACIS

## Founding Shareholder:

**A C Timpson** FlntD

## 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 Registry:

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:

Hornabrook Macdonald

Minter Ellison Rudd Watts

Russell McVeagh

## Bankers:

ANZ National Bank Limited

Australia and New Zealand Banking Group 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.knightsbridgecarpets.co.nz](http://www.knightsbridgecarpets.co.nz),  
[www.kimberleycarpets.com.au](http://www.kimberleycarpets.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)

