

NOTICE OF ANNUAL MEETING
23 DECEMBER 2020



Notice is hereby given that the 2020 Annual Meeting of shareholders of Cavalier Corporation Limited will be held online at www.web.lumiagm.com (Meeting ID 358-936-885) on Wednesday, 23 December 2020, commencing at 2.00 pm ("**Notice of Meeting**").

FORWARD-LOOKING STATEMENTS

THIS NOTICE OF MEETING CONTAINS FORWARD-LOOKING STATEMENTS.

As forward-looking statements are predictive in nature, they are subject to a number of risks and uncertainties relating to the Cavalier Corporation Limited group (“Cavalier”), its operations, the markets in which it competes and other factors (some of which are beyond the control of Cavalier).

In particular, Cavalier’s operations and results are significantly influenced by the level of activity in the flooring sectors of the economies in which it competes, particularly in New Zealand and Australia.

Fluctuations in commercial and residential construction activity, availability of capital, housing turnover and pricing, levels of repairs, remodelling and additions to existing homes, new housing starts, relative exchange rates, interest rates and general consumer confidence, can each have a substantial impact on Cavalier’s results of operations and financial position.

Other risks include competitor activity, product demand, pricing and input costs and the ongoing impact of COVID-19 on the level of activity in the flooring sector in all markets.

As a result, actual results and conditions may differ materially from those expressed or implied by such statements.

Any estimates or projections as to events that may occur in the future (including the financial effects of Cavalier’s transformation to the all-wool and natural materials business model) are based upon the best judgement of Cavalier from the information available as at the date of this Notice of Meeting.



LETTER FROM THE CHAIRMAN AND ITEMS OF BUSINESS

Dear shareholder

On behalf of the Board of Directors ("Board"), I am pleased to invite you to the 2020 Annual Meeting ("Annual Meeting") of shareholders of Cavalier Corporation Limited ("Company") to be held online at www.web.lumiagm.com on Wednesday, 23 December 2020, commencing at 2.00 pm.

We are holding the Annual Meeting online as a result of the ongoing uncertainty relating to COVID-19 and the importance of keeping our shareholders and our people safe in the current environment. This decision has not been taken lightly as we appreciate how important it is for the directors to be able to meet with shareholders in person. However, after careful consideration, we have decided that the risks of a re-emergence of the virus in our community means that it is only appropriate to hold the meeting online this year.

Shareholders who have not participated in an online meeting will find the virtual annual meeting notes on page 9 and the accompanying Virtual Meeting Guide useful.

The items of business to be dealt with at the Annual Meeting are set out on page 2, and the procedural notes for the Annual Meeting are on pages 10 and 11.



LETTER FROM THE CHAIRMAN AND ITEMS OF BUSINESS (CONT'D)

ITEMS OF BUSINESS

A. Chairman's address

B. Chief Executive Officer's address

C. Shareholder questions and discussion of 2020 annual report

D. Ordinary resolutions

To consider and, if thought fit, to pass the following ordinary resolutions (which require the approval of a simple majority of the votes of those shareholders entitled to vote and voting on the resolution):

Resolution 1 – Re-election of Dianne Williams:

That Dianne Williams, who retires and who is eligible for re-election, be re-elected as a director of the Company. See also Explanatory Note 1.

Resolution 2 – Election of Paul Izzard:

That Paul Izzard, who was appointed as a director by the Board on 20 November 2020 and who is eligible for election, be elected as a director of the Company. See also Explanatory Note 2.

Resolution 3 – Auditor's remuneration:

That the directors be authorised to fix the fees and expenses of the auditor. See also Explanatory Note 3.

Resolution 4 – Approval of sale and leaseback of Auckland property:

That the sale and leaseback of the Auckland Property, details of which are set out in Explanatory Note 4, so as to enable the Company to execute its transformation to the all-wool and natural materials business model, while also providing it with additional liquidity and funding, be approved.

E. Other business

To consider any other business that may properly be brought before the Annual Meeting.


The Board unanimously supports all resolutions and recommends that shareholders vote in favour of all resolutions.

The Company did not receive any director nominations prior to the closing date.

Transcripts of the Chairman's and Chief Executive Officer's addresses to the Annual Meeting, and any accompanying slide presentations, will be released to the NZX market announcement platform and posted on the Company's website at the same time as they are delivered to the Annual Meeting.

NZX confirmation

NZX has confirmed that it has no objection to this Notice of Meeting, but takes no responsibility for any statement made in this Notice of Meeting.



George Adams
Chairman
1 December 2020

EXPLANATORY NOTES

THE PURPOSE OF THESE EXPLANATORY NOTES ("EXPLANATORY NOTES") IS TO PROVIDE SHAREHOLDERS WITH INFORMATION ON THE MATTERS TO BE CONSIDERED AT THE ANNUAL MEETING.

1. ORDINARY RESOLUTION 1: RE-ELECTION OF DIANNE WILLIAMS



DIANNE WILLIAMS

B.Com., MBA, CMIInstD

Term of office:

Appointed as a director in July 2015
Last re-elected 31 October 2017
Annual Meeting

Board Committees:

Remuneration (Chair), Audit and
Nomination

Pursuant to NZX Listing Rule 2.7.1, a director must not hold office (without re-election) past the third annual meeting following the director's appointment or three years, whichever is longer. A retiring director is eligible for re-election. Accordingly, Dianne Williams must retire. The other directors unanimously support the re-election of Dianne Williams as a director.

Profile

Dianne has been an independent director of the Company since July 2015.

She is Chair of the Board's Remuneration Committee and a member of the Board's Audit and Nomination Committees.

Dianne's early career was in marketing in the FMCG sector, driving market dominance for some of New Zealand's favourite brands including Cadbury and Sealord before taking up senior executive roles with companies demanding strong sales and marketing programmes.

She is currently a director of Chartered Accountants Australia New Zealand, Netball Northern Zone (Incorporated Society) and West Auckland Trust Services Limited.

The Board has determined that Dianne will continue to be an independent director.

EXPLANATORY NOTES (CONT'D)

2. ORDINARY RESOLUTION 2: ELECTION OF PAUL IZZARD



PAUL IZZARD

BA Hons Interior Design

Term of office:
Appointed as a director on
20 November 2020

Board Committees:
Audit and Remuneration

Pursuant to NZX Listing Rule 2.7.1, a director appointed by the Board must not hold office (without election) past the next annual meeting following the director's appointment, but is eligible for election. Accordingly, Paul Izzard must retire. The other directors unanimously support the election of Paul Izzard as a director.

Profile

Paul was appointed a director by the Board on 20 November 2020.

He is a member of the Board's Audit and Remuneration Committees.

Paul is founder and director of Izzard Design, a leading interior design business in New Zealand.

Over almost 20 years, Paul has completed more than 300 projects in residential and commercial design, including the recently acclaimed Harbour Eats project at Commercial Bay downtown Auckland, The Goodside precinct at Smales Farm and Sanford's Seafood Market to name a few.

Paul has also gained multiple industry and design accolades across all design sectors. His industry knowledge and networks, as well as his business leadership experience, are considered valuable attributes as Cavalier transforms to being a global leader in designing and creating desirable, sustainable, safe and high performing natural interior solutions.

With more large precinct projects on the drawing board both nationally and internationally – including hospitality and residential - Paul is constantly at the leading edge of current design trends.

The Board has determined that Paul is an independent director.

3. ORDINARY RESOLUTION 3: FIX THE REMUNERATION OF THE AUDITOR

KPMG is automatically reappointed auditor under section 207T of the Companies Act 1993.

Section 207S of the Companies Act 1993 states that the fees and expenses of the auditor are to be fixed by the Company at the annual meeting or in such manner as the Company determines at the annual meeting.

The Board unanimously recommends that, consistent with past practice, the auditor's fees and expenses should be fixed by the directors.

4. ORDINARY RESOLUTION 4: APPROVAL OF SALE AND LEASEBACK OF THE AUCKLAND PROPERTY

Background

The Company held a special meeting of shareholders on 17 September 2020 ("**Special Meeting**") to approve the sale and leaseback of its Auckland properties situated at 7-9 Grayson Avenue, 2 Brett Avenue and 9 Brett Avenue, Papatoetoe, Auckland ("**Auckland Property**") to Kinleith Land and Infrastructure Limited (and/or nominee) ("**Kinleith**") ("**Kinleith Transaction**"). Shareholders approved the sale and leaseback at the Special Meeting.

The Auckland Property is owned by Cavalier Bremworth Limited ("**CBL**"), a wholly-owned subsidiary of the Company. The Auckland Property, with land area of 20,363 square metres (more or less) and lettable area of approximately 15,375 square metres, houses Cavalier's carpet tufting operation as well as its head office, finance and administration, information services, sales service and other support functions.

On 9 November 2020, the Company announced to the market that CBL had served a settlement notice on Kinleith, following Kinleith's failure to settle the Kinleith Transaction on 6 November 2020. The announcement resulted in a number of approaches from third parties seeking to acquire the Auckland Property on substantially the same, or more favourable, terms as offered to the Company by Kinleith.

As announced to the market on 16 November 2020, CBL has terminated the agreement with Kinleith for failure to pay the deposit and has entered into an agreement with Manukau Industrial Holdings Limited ("**MIH Transaction**") for the sale and leaseback of the Auckland Property. The MIH Transaction is a new transaction requiring shareholder approval for the purposes of NZX Listing Rule 5.1.1 and is conditional upon the Company obtaining such shareholder approval or obtaining a waiver from NZX in respect of that requirement. After discussions with NZX, the Company has elected to have the MIH Transaction approved by shareholders for the purposes of NZX Listing Rule 5.1.1.

The offer under the MIH Transaction was the best received from the third parties who sought to acquire the Auckland Property following the announcement that CBL had served a settlement notice on Kinleith. The Company was pleased to receive an offer with a greater purchase price than that under the Kinleith Transaction and did not see it as necessary to put the Auckland Property back on the open market.

Details of the MIH Transaction

The MIH Transaction is on substantially the same terms as those advised to shareholders in the notice of meeting for the Special Meeting (being as set out in the following paragraph) save that:

- (a) the purchase price is increased by \$900,000 to \$25.5 million;
- (b) the Company is asked to guarantee the obligations of CBL under the leaseback; and
- (c) the settlement date is (unless the parties otherwise agree) 10 working days following shareholder approval (given the blackout period over Christmas, this would be 19 January 2021 assuming this resolution is passed at the Annual Meeting).

EXPLANATORY NOTES (CONT'D)

4. ORDINARY RESOLUTION 4:

APPROVAL OF SALE AND LEASEBACK OF THE AUCKLAND PROPERTY (CONT'D)

The initial term of the leaseback is 14 years plus one right of renewal of six years, with net rent at commencement date of \$1,600,000 per annum and a 2.5% increase in rent per annum on each anniversary of the commencement date (except where that anniversary coincides with a market rent review date). Market rent reviews will take place on the sixth anniversary of the commencement date and on the renewal date, with market rent to be no less than 100% and no greater than 110% of the annual rent immediately preceding the relevant rent review date. (This differs from the Kinleith Transaction where the market rent was to be no less than 90% and no greater than 110% of the annual rent immediately preceding the relevant rent review date.)

The Company has estimated the present value of the rental obligation in respect of the Auckland Property to be around \$16.0 million, based on the initial term of the leaseback of 14 years and the net rent during that initial term (but ignoring the market rent review to take place on the sixth anniversary of the commencement date), discounted at the rate of 7.5% per annum¹. No rental amounts are being set off against the purchase price.

Bayleys Real Estate, who assisted CBL with the sale and leaseback, have confirmed that the terms of the sale and leaseback are typical for those entered into for large industrial sites in the Auckland region and that the triple-net lease² is typical after having regard to the age and condition of the Auckland Property.

The Company is to guarantee all of CBL's obligations as lessee under the lease. The lease (including the guarantee) is on the standard Auckland District Law Society form. CBL owns or controls a substantial proportion of Cavalier's net assets and will receive the proceeds of sale of the Auckland Property. The Board does not believe that the guarantee will be called upon and, in light of this view, it has determined that Section 129 of the Companies Act 1993 does not apply to the Company entering into the guarantee.

Reasons for the proposed transaction

As shareholders are aware, the Company has decided to exit the synthetic carpet market and return to an all-wool and natural materials business model that focuses on designing and creating desirable, sustainable, safe and high performing natural interior solutions.

To facilitate its transformation to the new model, Cavalier will require capital and investment. The Company has taken extensive external independent advice and been investigating a range of opportunities to realise additional funds to allow the Company to execute its transformation to the all-wool and natural materials business model as well as to support the business in light of the impact of, and uncertainty caused by, COVID-19. The sale and leaseback of the Auckland Property represents the most effective way of accessing capital at this time, with the Board also considering capital options to further strengthen the Company's balance sheet.

The net proceeds of the MIH Transaction of approximately \$25 million will provide the Company with:

- Additional liquidity and funding during the current uncertain operating environment;
- A sound financial footing to better capitalise on the expected eventual recovery in the carpet market; and
- The financial resources to continue its strategic transformation to its all-wool and natural materials business model.

1. NZ IFRS 16 *Leases* requires lease liabilities to be measured at the present value of the lease payments over the lease term, with these lease payments discounted using a discount rate that approximates the Company's incremental borrowing rate where the interest rate implicit in the lease is not readily available.

2. In a triple-net lease, the lessee assumes direct responsibility for all costs payable in respect of the property (including rates, insuring the premises, and maintaining the premises (including structural repairs and capital works)). While the lessee assumes those liabilities, ownership in the building rests with the lessor (save for those items specified as remaining owned by the lessee, including specialist plant and machinery required for CBL's operations).

Financial implications of the proposed transaction

The cash flow implications of the MIH Transaction, together with the sell-down of non-wool inventory, the repayment of bank debt and the execution of the strategic transformation to the all-wool and natural materials business model, as explained above, for FY21 are summarised below:

	\$ million
Net bank debt as at start of FY21	(14.5)
Net proceeds of the MIH Transaction ¹	25.0
Transformation-related cash flows:	
Restructuring	(1.4)
Capital expenditure ²	(0.7)
Marketing and people ³	(5.1)
FY21 net cash flows ⁴	11.4
Surplus cash as at end of FY21	\$14.7

The Board expects that all of the surplus cash from the MIH Transaction as at the end of FY21 would also be required in FY22 for the ongoing transformation.

The Board remains very focused on total shareholder value, with annual dividends an integral part of shareholder value creation. The Board is fully committed to the resumption of payment of annual dividends as soon as possible - subject to dividend payments being sustainable and supported by consistent earnings and a strong balance sheet.

Five-year modelling of Cavalier's future financial performance and the investment needed to bring about the transformation has been undertaken by management and external advisers. In summary:

- Total sales revenue for FY20 and FY21 will reduce as Cavalier exits its non-wool carpet business and as a consequence of COVID-19;
- Investment costs, including restructuring of its operations, will be incurred as the business adjusts its manufacturing and sales base to reflect the new sales focus, with these costs also inclusive of new display stands into retail stores to expand its market presence;
- Marketing spend and people costs will increase as Cavalier will be investing in a number of initiatives to enhance its market presence and ensure its strategy is successfully communicated, understood and implemented – in the process growing the wool flooring market while also growing its share of the wool market;
- As Cavalier's strategy bears fruit and sales of higher margin, higher value woollen carpets replace and eclipse the previous synthetic carpet sales, this will be reflected in Cavalier's financial performance, with growing revenues expected from FY23 and FY24 onwards as the business builds woollen carpet sales and as the economy recovers from COVID-19;
- The full benefits from the transformation are expected from FY25 onwards.

As part of its assessment of funding and the new strategic direction, the Board considered the long term risks and rewards of various alternatives (such as debt funding, an equity raise or other asset sales) and believes that the current funding proposal and strategy is the most advantageous pathway for the Company at this time and will provide long term value for shareholders, while preserving jobs, protecting local supply chains and supporting New Zealand's primary industry.

1. Sale proceeds are net of real estate agent commission and other expenses such as legal costs.

2. Including new display stands into retail stores.

3. Including launch of the transformation and focus on sustainability.

4. Including proceeds from sell-down of non-wool inventory.

EXPLANATORY NOTES

(CONT'D)

Risks of the proposed transaction

The principal risk with a sale and leaseback transaction is if the facility is critical to the operations of the business and the Company is unable to find suitable alternative premises at the end of the lease term. However, the Company is comfortable given the 14-year term of the lease, and the further right of renewal of six years, that it will be able to find suitable alternative premises at the required time.

The Company is confident that the MIH Transaction will proceed to settlement (should this resolution be passed at the Annual Meeting). The Company considers the risk of this transaction not settling to be minimal, with the current purchaser being a well-recognised, credible property investor. The only outstanding condition is shareholder approval.

It is noted that Kinleith may seek to dispute the termination of the Kinleith Transaction, however, as at 1 December 2020, being the latest date prior to the printing of the Notice of Meeting, the Company has not received any formal correspondence in this regard and is not aware of any credible basis upon which the termination could be challenged.

Recommendation of the Board

In the Board's opinion, the MIH Transaction is in the best interests of the Company and its shareholders.

The directors intend to vote all shares in the Company held or controlled by them in favour of the resolution to approve the MIH Transaction.

Consequences if the resolution is not approved

If shareholders do not approve the resolution in respect of the MIH Transaction, then the MIH Transaction will not proceed, requiring the Board to consider other options that may be available to the Company to enable the Company to execute the transformation.

A deposit has been paid by the purchaser under the MIH Transaction. If this resolution is not approved, the deposit (together with net interest accrued on that amount) will be refunded to the purchaser in full in accordance with the provisions of the sale and purchase agreement.

Listing Rule requirements

Under NZX Listing Rule 5.1.1, a listed issuer must obtain shareholder approval for an acquisition, sale or lease of assets in respect of which the "Gross Value" exceeds 50% of the issuer's "Average Market Capitalisation" (each as defined in the NZX Listing Rules), or where an acquisition, sale or lease of assets would significantly change the nature of the issuer's business.

The Gross Value of the asset that is subject to the transaction being contemplated (including the leaseback) exceeds 50% of the Company's Average Market Capitalisation¹ and, therefore, under NZX Listing Rule 5.1.1, shareholder approval by ordinary resolution is required.

The Company does not consider that the MIH Transaction will significantly change the nature of its business.

1. The Company's Average Market Capitalisation as at 27 November 2020, being the latest practical date prior to the printing of the Notice of Meeting was approximately \$24.7 million.

VIRTUAL ANNUAL MEETING

In light of the current uncertainty around COVID-19, the Company has made the decision to hold the Annual Meeting online, via the online platform at **www.web.lumiagm.com**.

Shareholders attending and participating in the virtual Annual Meeting will be able to view the presentations, vote on the resolutions to be put to shareholders and submit questions, by using their own computers or mobile devices. Shareholders will still be able to appoint a proxy to vote for them as they otherwise would, by following the instructions on the proxy form and this Notice of Meeting.

Shareholders will require the meeting ID – which is 358-936-885 – as well as your Username (CSN or Holder Number which can be found on your proxy form), and your postcode for verification purposes.

Virtual meetings are accessible on both desktop and mobile devices. In order to participate remotely shareholders will need to visit **www.web.lumiagm.com** on your desktop or mobile device. Ensure that your browser is compatible – Lumi AGM supports the latest version of Chrome, Safari, Internet Explorer, Edge or Firefox.

Audio will stream through the selected device, so shareholders will need to ensure that they have the volume control on their headphones or device turned up.

If you have any questions, or need assistance with the online process, please contact Computershare on +64 9 488 8777 between 8.30am and 5.00pm Monday to Friday.

Details of how to participate ‘virtually’ are provided in the accompanying Virtual Meeting Guide, with instructions for accessing the virtual meeting.

Shareholders are encouraged to review this guide.

PROCEDURAL NOTES

VOTING

As required by NZX Listing Rule 6.1.1, the Chairman of the Annual Meeting will be calling a poll in relation to all the resolutions to be put to shareholders at the Annual Meeting so that the results will be determined on the basis of one vote per share held.

No shareholder is prohibited from voting on the resolutions and all shareholders will vote together as one class.

PERSONS ENTITLED TO VOTE

For the purposes of voting at the Annual Meeting, only those shareholders registered as such as at 5.00 pm on Monday, 21 December 2020 shall be entitled to attend and exercise the right to vote at the Annual Meeting and only the shares registered in those shareholders' names at that time may be voted at the Annual Meeting.

DIRECTORS' INTENTION TO VOTE

Where shareholders appoint the directors of the Company, including the Chairman, as their proxy and expressly grant the directors discretion on how to cast their votes, the directors have advised that they intend to vote in favour of all resolutions.

PROXIES AND CORPORATE REPRESENTATIVES

Any shareholder who is entitled to attend and vote at the Annual Meeting may appoint a proxy (or representative in the case of a corporate shareholder) to attend and vote instead of him or her. A proxy need not be a shareholder of the Company. A shareholder may appoint the Chairman of the Annual Meeting or any other director as his or her proxy if he or she wishes.

In addition, where a shareholder does not name a person as their proxy but otherwise completes the proxy and postal voting form in full, or where a shareholder's named proxy does not attend the Annual Meeting, the Chairman of the Annual Meeting will act as that shareholder's proxy and will vote in accordance with that shareholder's express direction and, if expressly granted a discretion on how to vote, will vote in favour of all resolutions.

To appoint a proxy, shareholders should complete the relevant sections of the proxy and postal voting form accompanying this Notice of Meeting which must be deposited with the Company using one of the methods outlined on the proxy and postal voting form by 2.00 pm on Monday, 21 December 2020 (being 48 hours before the start of the meeting). These methods include:

1. Lodging the proxy appointment online on the website of the Company's share registrar www.investorvote.co.nz; or
2. Returning the signed proxy and postal voting form to the Company's share registrar (a) using the reply-paid envelope provided; (b) by faxing to +64 9 488 8787; or (c) by e-mailing to corporateactions@computershare.co.nz.

POSTAL VOTING

Shareholders entitled to attend and vote at the Annual Meeting may cast a postal vote instead of attending in person or appointing a proxy to attend. Victor Tan, the Company Secretary, has been authorised by the Board to receive and count postal votes at the Annual Meeting.

To cast a postal vote, shareholders should complete the relevant sections of the proxy and postal voting form accompanying the Notice of Meeting which must be deposited with the Company using one of the methods outlined on the proxy and postal voting form by 2.00 pm on Monday, 21 December 2020 (being 48 hours before the start of the meeting). These methods include:

1. Lodging the postal vote online on the website of the Company's share registrar www.investorvote.co.nz; or
2. Returning the signed proxy and postal voting form to the Company's share registrar (a) using the reply-paid envelope provided; (b) by faxing to +64 9 488 8787; or (c) by e-mailing to corporateactions@computershare.co.nz.

ONLINE PROXY APPOINTMENT AND POSTAL VOTING

To lodge proxy appointments and postal voting online, shareholders will need to follow the prompts online at www.investorvote.co.nz. Shareholders will require their CSN/ Securityholder Number and postcode (if in New Zealand) or country of residence (if outside New Zealand) and the secure access control number, all of which can be found on the proxy and postal voting form accompanying the Notice of Meeting.

Alternatively, shareholders can scan the QR code that appears on their proxy and postal voting form with their smartphone or tablet and follow the directions provided. To scan the code, shareholders need to have already downloaded a free QR code reader to their tablet or smartphone. When scanned, the QR code will take them directly to the mobile voting site.

SHAREHOLDER QUESTIONS

Shareholders present at the Annual Meeting will have the opportunity to ask questions when invited to during the Annual Meeting. Alternatively, shareholders can submit questions ahead of the Annual Meeting by writing to the Board and submitting it to the Company in the reply-paid envelope or by email to KMain@bremworth.co.nz.

Motions will not be allowed from the floor.

The Company's external auditor, KPMG, will be available during the Annual Meeting to answer questions from shareholders in respect of the external audit function and the audit of the financial statements for the year ended 30 June 2020.

IMPORTANT INFORMATION

KEY DATES

All times given are New Zealand times

2.00 pm
Monday, 21 December 2020

Latest time for receipt of proxy appointments and postal votes

5.00 pm
Monday, 21 December 2020

Record date for determining voting entitlements at the Annual Meeting of shareholders

2.00 pm
Wednesday, 23 December 2020

Annual Meeting of shareholders



Cavalier Corporation Limited

7 Grayson Avenue, Auckland 2104
P O Box 97040, Auckland 2241

Telephone: 64-9-277 6000
Facsimile: 64-9-279 4756
www.cavcorp.co.nz

CAVALIER
CORPORATION

