

2018 Annual Report

Dear Shareholders,

We are pleased to present you with the Cavalier Corporation Annual Report for the twelve months ended 30 June 2018.

FY18 was an important turnaround year for Cavalier Corporation as we roll out our new strategy, to be a marketer of high-end carpet solutions. We are pleased with our progress and we are confident we are on track to realise long-term sustainable growth, with improving margins and quality earnings.

We have made considerable changes to our business and redefined our focus - to be a marketer of carpets, not simply a manufacturer. We step into FY19 with a new strategy, a clear purpose and a determination that we can, in our 60th year, move our company forward into growth and delivering shareholder value.

Offer to Acquire Shareholding in Cavalier Wool Holdings (CWH)

On 27 September 2018, after finalisation of the Annual Report, we announced that we had received an offer to acquire Cavalier's 27.5% shareholding in CWH, which has wool scouring operations in Napier and Timaru.

Cavalier would receive approximately \$13.5 million in cash from the transaction.

While this is within an acceptable commercial range and has already been accepted by our CWH partner shareholders, it is below the carrying value of the investment at the end of our financial year and, if concluded, would result in a non-cash write down of approximately \$11.8 million in FY19.

The Board considers the sale favourable, based on the opportunity the sale provides to significantly reduce debt and strengthen the balance sheet, allowing us to explore opportunities that will enhance value in the Company's core carpet business. The Board also had to consider the likelihood of a new competing scour being established by the purchaser, which would have significantly impacted the carrying value of our asset.

Finally, we do not deem it essential to own scouring infrastructure to secure a supply of scoured wool for our carpet manufacture. We will achieve this through a long-term renewable scouring agreement with CWH on arm's length commercial terms.

A further announcement will be made if and when these negotiations are finalised.

An exciting future

The Board, management and staff are excited and optimistic about Cavalier's future, particularly the company's renewed focus on wool, and the opportunity this presents locally and globally.

The Board expects a further year of improving financial performance and growth, with the company better positioned to benefit from more favourable operating conditions and realising a full period of operating efficiencies.

We look forward to sharing more on our strategy and progress at our Annual Shareholders' Meeting in October.

Yours sincerely



Alan Clarke
Cavalier Corporation Chair

27 September 2018

FY18 Year in Review

Revenue

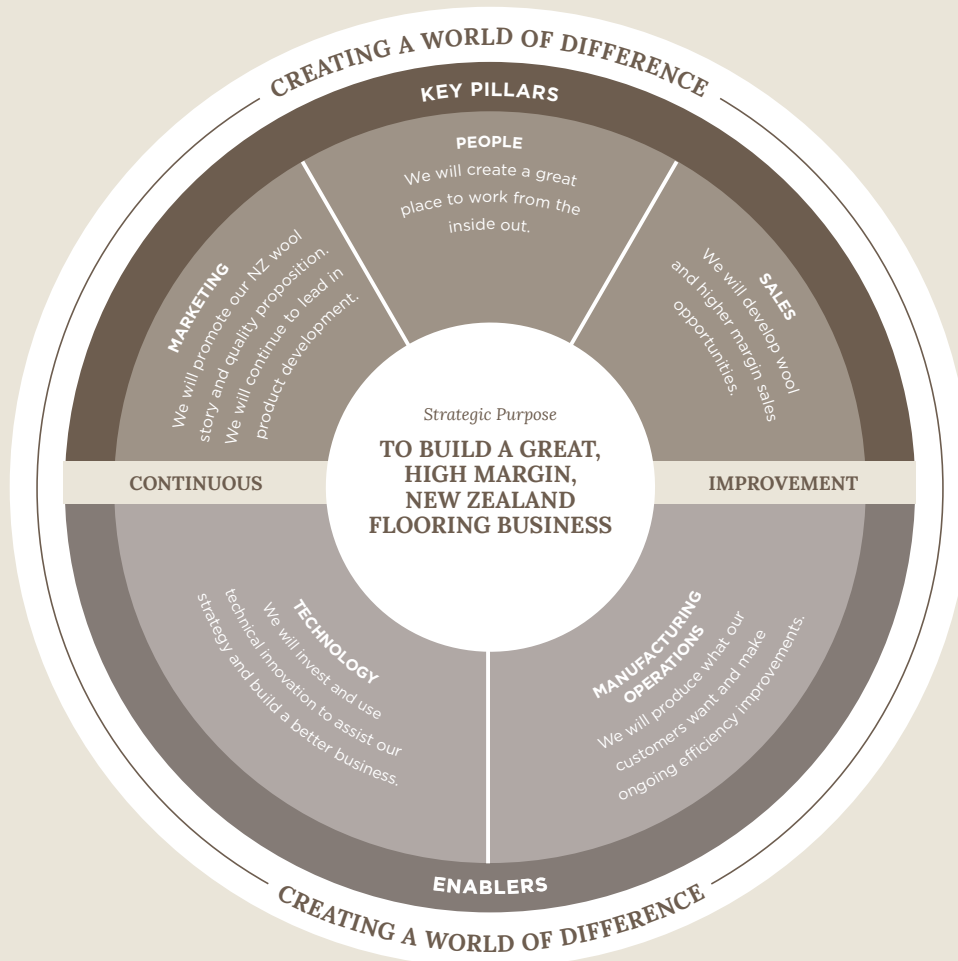
\$148.1m

Normalised earnings¹

\$4.0m NPAT
\$10.0m EBITDA

Balance sheet

**STRONGER
FINANCIAL
POSITION.**



A New Strategic Focus

Cavalier has a long and proven history as a manufacturer of high quality carpet solutions.

Our manufacturing facilities have been right sized and are operating more efficiently as a result of our relocation and rationalisation programme.

Our core strategic purpose is now to build a great high margin flooring business. This means a change in focus from manufacturer to marketer, with a business wide emphasis on wool.

It makes sense that we build on our established reputation and focus our efforts on higher margin products, particularly given growing environmental concerns regarding the overuse of plastics. This presents an important and very real opportunity for our business, especially given our heritage and expertise in wool, and our recent introduction of recycled products.

We also recognise some of our customers will still want high quality synthetic options, which we will continue to make available.

So our future focus is clear. We will focus our efforts on being a marketer of high quality environmentally responsible carpet solutions, with a wool bias. All based on Cavalier's proven and differentiated position as an innovator of high quality flooring solutions.