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Australia

CAQ Holdings Limited September 2020 Quarter Activities Report

Operations Review

The September Quarter has seen a continuation in the development of CAQ Holdings Limited (CAQ) commercial retail operations with leasing activities remained steady.

The Directors of CAQ Holdings advise that while there was an initial impact on emerging retail operations during the March quarter, with the temporary close on two outlets, there continues to be only a limited impact on trading operations from COVID19. Retail outlets were largely unaffected during the September quarter with sales continuing an upward trend. There are however some inventory supply issues emerging which could impact growth. The Kingmall Joint Venture currently has two outlets in operation with a third outlet opened in October 2020. During the September Quarter, the total sales amounted to RMB3.08 million, representing an increase of 0.59 million or 23.69% from RMB2.49 million for the June Quarter. During the September Quarter, the net loss amounted to RMB0.79 million, representing a decrease of RMB0.24 million or 23.3% from RMB1.03 million for the June Quarter. Given an improvement in total sales during the September Quarter, the net loss recorded a decrease during the September Quarter.

The property leasing business has not shown any deterioration as a result of COVID19. Leasing income remains relatively constant being RMB 2.7m (AUD\$569k) for the quarter having averaged RMB875k (AUD\$185k) per month for the nine months since 1 January.

Occupancy of the industrial property still lags below target in some areas and was as follows for the month. Vacancy (including areas subject to negotiation) rate being:

Warehouse (41,750m ²)	12%
Factories (17,784m ²)	69%
Exhibition Centre	100%
Administrative Building	57%

Work is continuing on securing new tenants for all areas with a number of contracts under negotiation expected to convert in the next two months.

During the September quarter CAQ's operating revenue total \$712k with operational expenditure of \$605. At the end of the September quarter the CAQ had no debt and cash on hand of \$1.164m.

Government initiatives (see below) continue to provide a positive outlook for the commercial operations overall and are expected to drive a growth over the next 24 months. The Company is continuing to advance commercial discussions focusing on the generation of opportunities to reinvigorate underutilised property leasing assets. In addition, strategies to broaden the distribution channels of Kingmall JV business are also being developed.

CAQ Holdings Limited (ACN 091 687 740)

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On 6 August, 2020, HPB, a wholly owned subsidiary of CAQ, entered into an investment agreement with Hainan Tourism Investment Development Company Limited ("HTID") in relation to the formation of the joint venture company in Hainan Province, the PRC. The joint venture company will be owned as to 45% and 55% by HPB and HTID, respectively. HTID is a wholly owned subsidiary of the Hainan government with a registered capital of approximately RMB3 billion. HTID was established as a business arm of the Hainan government to participate into the implementation and development of the Hainan free trade island. The free trade status has been approved by the Chinese central government to develop the Hainan Island into a free trade island, which provides for zero duty, low taxes and free flow of foreign exchange. HTID was also granted the third duty free license by the State Souncil of the Chinese Central Government as the sole operator of duty free shops inside the Hainan Island. Hainan Diamond and Jewelry Company Limited ("HDJC"), the new joint venture will take a leading role of the development of diamond and jewellery business of the island, including the duty-free development in terms of this industry. The registration process of HDJC was completed and currently is preparing the whole business plan of the future development of it.

An intention letter leasing the 4th and 5th floors of the Company's Exhibition Centre was signed on 16 August 2020. The leased area is 7,676.4 sqm and the rent per sqm per month is RMB60, excluding tax, utilities expenses and management fee. While the area has not yet been removed from vacancy numbers a deposit of RMB 500,000 was received. The exhibition Centre currently is under rough renovation including the roof and floors and the installation of the air-conditioning system. HDJC proposed to rent the 1st to 3rd floors of the Exhibition Centre at the minimum price of the RMB60 per sqm, excluding tax, utilities expenses and management fee. The lease agreement is currently under negotiation and will be signed in the foreseeable future. The Exhibition Centre, after renovation, will have its grand opening in the mid-December and will start generating income starting from the first quarter of 2021. The total floor area of the Exhibition Centre is 22,441.96 sqm. After the opening and operation of the Exhibition Centre, the diamond and jewellery players will open shops in the Exhibition Centre and thus is expected to lead to the increase in demand of office areas and warehouse areas, which will benefit to the nearby office and warehouses held by HPB, both in rental income per sqm and the occupancy rate.

Government Policy Changes – Free Trade Zone

China's opening-up policy is set to expand the role of Hainan Island with the introduction of the Hainan Free Trade Zone. The development means that the whole province of Hainan will transition into a free trade zone and not just discrete areas and special economic zone.

Hainan is expected to benefit from duty free treatment for most goods and commodities, lower income tax and relaxed visa requirements for foreign tourists and professionals. But critically goods will be able to enter the rest of China through Hainan duty free provided 30 percent of their value is added in Hainan. It is expected that customs control between Hainan and mainland China will be established by 2025.

CAQ Holdings, with recently completed factory and warehousing infrastructure, expects to benefit in from this Central Government initiative, which over time, is planned to significantly increase economic activity on the Island.

At the 17th meeting of the Standing Committee of the National People's Congress voted to approve the decision to authorize the State Council to temporarily adjust and apply the relevant laws and regulations in China (Hainan) Free Trade Pilot Zone. Only the two special administrative regions of Hong Kong and Macau had previously enjoyed such treatment. It is believed that Hainan free trade zone will become a new hub for global trade development and world economic growth.

A free trade port is generally regarded as the most open free trade area. In a free trade port, the customs front line is truly liberalized, goods flow freely, trade control measures for incoming goods are eliminated or minimized and the front-line declaration procedures are simplified.

Usually, it refers to the port area that is located in the country and region but outside the customs control point where allows free entry and exit of foreign goods and funds, and where foreign ships, aircraft and other transportation vehicles can travel freely.

Hainan Island is an important open gateway to the Pacific Ocean and the Indian Ocean. From the perspective of mainland China, Hainan Island is a nerve ending. In the past 30 years, the GDP of Hainan Province has increased by 21.8 times; the income of its urban and rural residents has respectively increased by 30.3 times and 24.7 times; the value added of the tertiary industry in GDP has increased from 31% to 55.7%.

While many special economic and free trade zones exist within China they are largely small industrial estates, air and seaports. The significance of this policy development is the sheer size and scale of the Hainan zone proposal.

What will this mean to CAQ

In addition to the continued upgrading of trade and investment liberalization in Hainan, the fiscal and taxation and financial sectors are expected to be the focus of Central policy support, including tax exemption and expansion, tax reduction and exemption, and RMB internationalization. Duty-free shopping, leisure tourism, medical rehabilitation, tropical agriculture and oil and gas development, the digital economy and financial technology serving industrial development are expected to develop.

In terms of tourism consumption services, attentions should be put on the development direction of tourism consumption such as "tourism + shopping", "tourism + medical", "tourism + culture", "tourism + sports", as well as key cities such as Haikou, Wanning and Sanya. CAQ expect to benefit from this advance through the retail operations of the Mission Hills Joint Venture, which commenced trading in late 2019 and continues to make strong progress.

In the area of industrial development CAQ is well positioned particularly with expected upgrading of infrastructure and focus on development of high end technology industries.

Financial

At the end of the Quarter the Group had cash at bank of \$1.164m. Included in the Appendix 4C section 6.1 are amounts paid to Directors of the Company during the September Quarter totalling \$158k comprising director fees and salary.

Ends

This announcement has been authorised for release to ASX by Michael Siu, Director on behalf of the Board of Directors.

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