



13th December 2016

Company Announcements Office
ASX Limited

Progress Update on the Haikou Free Trade Zone Project

The Company's wholly-owned subsidiary, Haikou Peace Base Industry Development Co. Ltd ("HPB") is responsible for the construction and operations of the Haikou Project. In addition to this, HPB is also involved in retail sales of diamonds and diamond jewellery. An update is as follows:

Construction and Fit-Out Update

Commercial and Administrative Centre

Construction of the Commercial and Administrative Centre including the fit-out of the first and second floors have been completed. Installation of low current security systems has been completed.

Factories

Construction of the Factories has been completed. The fit-out of Factory A has also been completed. Fit-out of Factory B and Factory C is the tenant's responsibility. Installation of low current security systems has been completed.

Bonded Warehouses

Construction of the Bonded Warehouses has been completed. Installation of low current security systems has been completed.

Exhibition Centre

Construction of the Exhibition Centre has been completed. Installation of low current security systems has been completed.

Overall Progress Update

Final inspection of the elevator systems, fire protection systems, lightning protection systems, security systems, power supply systems, water systems, energy saving systems, civil air defence compliance and termite protection systems in all the buildings have been completed. Construction of the roads and landscaping has been completed. HPB is continuing to arrange relevant government agencies to carry out the required final completion inspections and expect to obtain an Official Inspection and Acceptance Certificate for the Project by mid-January 2017.

Bank Loan Facility

In August 2016, HPB obtained a RMB 15 million bank loan facility (approximately AUD2.9 million) to be used for working capital and other costs such as fit-outs and landscaping of the Haikou Project. To date, HPB has drawn down the facility by RMB 2 million (approximately AUD \$400,000).

Jewellery Stores

To date, HPB has opened the following physical stores:

- Zuanxihui Integrated Duty-Free Store located in the Haikou Meilan Airport Duty-Free Mall; and
- Zuanxihui Store located in Mission Hills Centreville, Haikou.

Zuanxihui is HPB's own brand.

E-Commerce Business

To date, HPB has an e-commerce platform, www.zuanxh.com which markets HPB's loose diamonds and imported jewellery.

To date, HPB also has an Zuanxihui e-store on the JingDong Mall e-commerce platform.

Lease Commitments

HPB have signed lease agreements for 100% of the leasable area of the factories. Factory A has been handed over to the lessee, Hong Kong Hung Mei Co. Ltd. The handover of Factory B and C to the respective lessees is to occur 5 days after obtaining the Official Inspection and Acceptance Certificate for the Project.

HPB also signed lease agreements for 99% of the leasable area of the Exhibition Centre.

HPB signed a lease agreement with China Logistics Infrastructures (Holdings) Limited ("CLI") for approximately 49% of the warehouse area available for lease. CLI has expressed an intention to terminate the lease agreement. HPB and CLI are currently negotiating amended terms of the lease agreement.

Of the remaining 51% of the warehouse area available, 10,738m² (i.e., Bonded Warehouse B) is intended to be leased to HDFC and 9,820m² (i.e., Bonded Warehouse C) will be reconfigured into constant-temperature-and-humidity warehouses to accommodate needs of potential tenants who are mainly wine dealers.

A summary of the approximate lease commitments in terms of area (m²) is shown on below.

Building	Approximate Total Built Up Area (m ²)	Approximate Area of Lease Commitment Obtained (m ²)	Approximate Area of Lease Under Negotiations (m ²)
Commercial and Administrative Space	6,080	2,141 ¹	3,939
Factory Space	17,887	17,887	-
Warehouses	41,115	20,000	21,115
Exhibition Centre	22,083	15,078 ²	7,005 ³
Total	87,165	55,106	32,059

¹ 1,075m² has been handed over to the National Gemstone Testing Centre and the Customs of Haikou Free Trade Zone. The remaining 1,066m² is utilised by HPB.

² 5,078m² will be utilised by HPB.

³ Given HPB's cooperation with HDFC, HPB intends to lease out this 7,005m² to factory tenants for them to set up stores.

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