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Company Announcements Office
ASX Limited

CAQ to Develop Cross Boarder E-Commerce Business with Mission Hills Group

CAQ Holdings Limited (ASX:CAQ) is pleased to advise that it has executed a joint venture agreement with diversified leisure and industry group, Mission Hills to jointly develop a cross-border e-commerce business in China. Mission Hills is recognised as the most innovative hospitality and leisure enterprise in China and the Asian Pacific region.

Under the terms of the joint venture CAQ Finance (HK) Limited (“CAQHK”), a wholly owned subsidiary of CAQ, and Hainan Xunhao Business Management Company Limited, a wholly owned subsidiary of Mission Hills, will establish a special purpose company, Hainan Whale Trading International Company Limited (“Whale Trading”), proposed name subject to final approval by the government, on a 50/50 equity basis.



Mission Hills New City Development

The parties will work together to develop the online cross-border e-commerce platforms and offline cross-border e-commerce experience outlets. Outlets will focus on the expanding tourist centre of Hainan Island. Whale Trading will make use of the strengths of both parties in



developing online and offline e-commerce retail business. Initial outlets, to be rolled out over a three-year period, will be located within the Haikou Integrated Free Trade Zone, Mission Hills New City, Haikou and Sanya. All locations are situated on Hainan Island.

Cross-border business or online transaction of goods has rapidly increased in China in recent years, including purchases of foreign goods from foreign websites. The continuous rise of the middle-class and purchasing power in China, has created demand for quality goods and led to the purchase overseas of quality products through cross-border e-commerce. In 2016, the total transaction volume in China was Renminbi 6.3 trillion increasing in 2018 to Renminbi 9.1 trillion, an annual growth rate of approximately 20%.

The joint venture will mainly operate on a B2C model within the Haikou Integrated Free Trade Zone. All overseas goods will first be shipped to CAQ's warehousing and exhibition facilities for customs' records. They will then be sold inside the exhibition centre and can be delivered freely to the retail experience outlets operated by the joint venture. Tourists can buy and pick up good instantly and legally, which is currently prohibited by the customs in China for cross-border e-commerce.

In 2018 more than 76 million (Chinese) domestic and overseas tourists visited southern China's island province of Hainan, where CAQ's recently opened property warehousing and retail operations are based. Hainan's tourism revenue rose in 2018 by 14.5 percent over the previous year to RMB 95 billion (approx. AU\$20 billion). According to official data, two duty free malls, one in the provincial capital of Haikou and the other in the resort town of Sanya, received 2.88 million customers and sold over RMB 10b (AU\$2.1b) in goods.

The enactment of new policies by the Chinese Government directed at building Hainan into a free trade area enable Whale Trading to develop a new business model able to break through the existing cross-border e-commerce bottleneck by introducing an innovative new mode of "bonded reserve, plus online sales and instant off-line pickup" in China.

Under the joint venture development plan Whale Trading will initially renovate 8,000 sqm of space within HPB's Hainan Exhibition Centre into a bonded warehouse which can carry out business in the mode of "bonded stock-up and off-line pickup" as well as a warehouse type commercial centre having functions of both wholesale and retail. Additionally, a 4,000sqm retail store in the Mission Hills New City will, be renovated into international brand experience outlets for "bonded stock-up and off-line pickup".

Taking advantage of existing infrastructure of both joint venture partners will enable a targeted opening date for the first outlet of the end of the December quarter 2019 with the second to follow shortly after. A further six retail experience stores are planned for the following three years within commercial areas of Haikou and Sanya, on Hainan Island.



Establishment funding for the joint venture will come from an equity contribution by each partner of RMB 5 million (approx. AU\$1.05m) with a further RMB20 million (AU\$4.2m) in working capital through a letter of credit with Chinese banks and RMB 20 million (AU\$4.2m) from contractor renovation advance. Renovation on the first outlet, within CAQ's free trade zone buildings, is expected to commence in July.

The joint venture provides CAQ with an exciting new business opportunity which leverages off its existing asset base utilising available space and broadening the Company's business focus in partnership with a major Chinese operator.

The Company will provide progressive updates on the development of outlets and their impact of the Company's operations. Initial capital requirements will be comfortably met by existing cash reserves.

Background of Mission Hills Group

Mission Hills is a Chinese leisure and developer of sunrise industries. The group is a diversified industry conglomerate and the owner and operator of a number of world class golf courses, hotels and recreation sports centres as well as retail infrastructure. In 1995 the group's Mission Hills golf course held the 41st World Cup of Golf, China's first globally significant golf championship. Today the Mission Hills Group is a major innovative hospitality and leisure enterprises within China and the Asia Pacific region.

Michael Siu
Director