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Company Announcements Office
ASX Limited
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Australia

CAQ Holdings Limited June 2020 Quarter Activities Report

Operations Review

The June 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 of two outlets, there has been only a limited overall adverse impact on trading operations from COVID19. Retail outlets were unaffected during the June quarter with sales continuing an upward trend. The Kingmall Joint Venture currently has two outlets in operation with a third scheduled for opening late in the September quarter 2020.

At this time, Joint Venture operations are tracking below breakeven (approx. RMB18m) with sales for the first twelve months to December project to be in the range of approximately RMB10 million to RMB12 million. Given the business interruptions occurring since the commencement of operations in mid December 2019, that the high season runs from October to March and that the June quarter trading is one of the flattest times of the year, this is a strong result.

The property leasing business has not shown any significant deterioration as a result of COVID19. Leasing income remains relatively constant being AUD517k for the *quarter*.

The vacancy level for the industrial property was higher than targeted in some areas. The rate during the quarter being:

Warehouse (41,750m2)	15%
Factories (17,784m2)	58%
Exhibition Centre (20,159m2)	100%
Administrative Building (6,070m2)	59%

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

Government initiatives (see below) provide a positive outlook for the commercial operations and are expected to drive a growth over the next 24 months. The Company is engaging in early stage discussions with parties focusing on the generation of opportunities to reinvigorate underutilised leasing assets. In addition, strategies for the fast track roll out of Kingmall JV business are also being considered with a decision expected to be made by no later than the December quarter.

CAQ Holdings Limited (ACN 091 687 740)

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The Company's Chairman, Mr Paul Price, said "The Company's operations have transitioned well through a very challenging period. The impact of COVID19 while acutely felt in the retail business was for only for a short period of time and that business looks to be on track. There is scope for a significant improvement in our leasing operations and there are indications that this could turn around in the near future with increasing in enquiries.

Recent government policy announcements are providing a positive business environment which is expected to assist in the Company achieving greater utilisation of leasing properties and growth in retail operations. We see Hainan Island providing significant commercial opportunities which the Company is well placed to take advantage of. The Company is currently considering a number of business development opportunities and hope to advance these over the next two quarters."

Corporate and Cash Flow (Appendix 4C)

During the June quarter CAQ's operating revenue total \$517k with operational expenditure of \$822k. At the end of the June quarter the CAQ had no debt and cash on hand of \$1.95m. Payments made to an "associate of, a related party of the entity during the quarter are included in the Appendix 4C for the June 2020 Quarter and comprise directors fees and emoluments of \$160k , salaries to key management personnel of \$38k and advisory services of \$1k.

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 and shopping", "tourism and medical", "tourism and culture", "tourism and 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 retail and technology industries.

Ends

This announcement has been authorised for release to ASX by Michael Siu, Director.

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